THE DIVESTITURE PHASE OF OUR REDEPLOYMENT PROGRAM IS COMPLETE. OUR PRIORITY NOW IS TO GET MAXIMUM RESULTS IN COMING YEARS FROM THE REINVESTMENT OF THE FUNDS GENERATED.

Annual Report 1981

BORDEN

BORDEN

Financial Highlights

(In thousands except per share and percentage amounts)

	December 31 1981	1980*	Percent Change
Operating Results (for the year)			
Net sales	**$4,415,174**	$4,595,795	− 3.9
Income taxes	**79,500**	95,300	−16.6
Net income	**159,939**	147,485	+ 8.4
Net income per common share and equivalent:			
Primary	**5.45**	4.77	+14.3
Fully diluted	**5.20**	4.56	+14.0
Dividends:			
Common share	**2.01¼**	1.88	+ 7.0
Preferred series B share	**1.32**	1.32	
Total dividends	**59,110**	57,976	+ 2.0
Capital expenditures	**247,500**	196,951	+25.7
Financial Position (at year-end)			
Working capital	**$ 519,094**	$ 574,002	− 9.6
Current ratio	**1.9:1**	1.7:1	
Long-term debt-to-equity percent	**33%**	40%	
Shareholders' equity	**1,318,755**	1,227,422	+ 7.4
Equity per common share	**44.98**	41.32	+ 8.9
Common shares outstanding	**29,298**	29,681	− 1.3
Return on average shareholders' equity	**12.6%**	12.3%	

Restated as explained in Note 12 and reclassified to conform with 1981 presentation.

CONTENTS

Message to Shareholders and Employees

Every chief executive officer, preparing a message for the annual report, hopes to find the exact word or phrase that sums up the company's performance in the preceding year. For Borden's total activity in 1981 there is no encompassing descriptive word or phrase, because two very different — some might say mutually exclusive — events took place at the same time:

We set an all-time high in earnings while simultaneously carrying out a massive redeployment of the Company's assets.

A redeployment of this scale — we are "recycling" about one-third of our assets — usually results in a substantial charge against earnings. That did not happen at Borden — no such charge was made, so shareholders' equity was not impaired.

In a redeployment of assets there is also the loss of income from operations that have been divested — for Borden, $40 million in 1981. However, our operating divisions more than made up the $40 million, while at the same time nearly offsetting about $60 million in increased gas costs, caused by Texaco Inc.'s failure to deliver under a natural gas supply contract.

In our Message in last year's Annual Report we said that even with the redeployment underway we would maintain in 1981 our historical growth rate in earnings per share, which has averaged 10% over the past 10 years. In spite of the poorest housing and automotive markets in several decades, a national economy that by mid year had slipped into recession, and the burden of extraordinary gas costs, we exceeded our commitment by almost half, increasing earnings per share by 14.3% above 1980's. The improvement in the fourth quarter was greater than in any other quarter — 27.4% — with most of it attributable to an outstanding performance by our Consumer Products Division. The Division was the principal beneficiary of the Company's record expenditures for advertising and promotion, which rose 14.6% to $200 million.

In January 1982, with the sale of our three Pepsi-Cola bottling franchises, we essentially concluded the disposal phase of our planned $1.5 billion capital investment program, which will run through 1985. Since the start of the program we have generated over $500 million in cash, all of which has been committed to the investment program.

The disposition phase of our redeployment program is complete. Our priority now is to get maximum results in coming years from reinvestment of the funds generated. To do this we are building on our strengths: the 125-year-old Borden name, over a century of experience in packaging consumer products, and over a half-century of experience in chemical products directed to specialty markets. At the same time, we are channeling our resources into fewer areas of business: those combining the highest return with the largest growth potential.

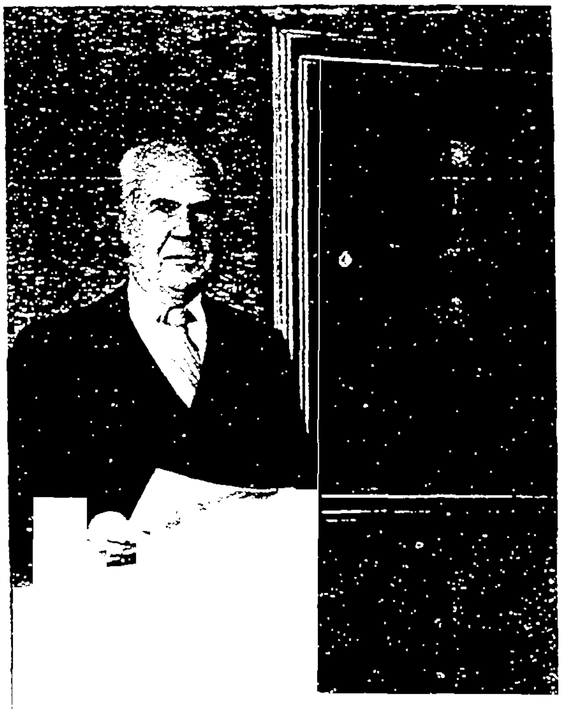
On the consumer side these are primarily Borden-brand snacks, pasta, dry grocery items, and packaged chemical specialties, and, on the industrial side, primarily vinyl chloride- and methanol-based products upgraded for specialized applications. Our International Division, operating in an increasingly industrialized world economy, is also stressing value-added goods.

In all its chosen product areas, Borden already has a well-established position, earned over many years. We know our markets, our customers, and our competitors. With our $1.5 billion capital investment program, we are adding the manufacturing capacity and efficiency that will enable us to fully exploit our know-how, experience, and market standing.

The investment program, however, is still in the early stages, and its major effect will not be felt until 1983 and beyond. Nevertheless, because of the benefits already gained from the redeployment program, we expect to continue our historical growth rate of about 10% in earnings per share for 1982, even in the face of forecasts of a moderate to severe recession. In 1983, with our major capital projects in production and the economy recovered, we see our growth rate doubling, with earnings per share increasing by 16% to 20% from 1982.

The ambitious goals for the redeployment program have meant added effort and responsibilities for employees, and they have responded with an enthusiasm and understanding that augur well for the program's success. Management has had the full support of an active and involved Board of Directors, whose strength was enhanced during the year with the addition of the Chairman and Chief Executive Officer of Amstar Corporation, Robert T. Quittmeyer, and the Vice President and Treasurer of American Telephone & Telegraph Company, Virginia Dwyer. Shareholders have been equally supportive, as evidenced by their generous endorsement of management's actions during the past year.

In 1982, the Company will celebrate the 125th anniversary of its founding, by Gail Borden. Time and change have taken the Company far beyond condensed milk, the product that Gail Borden invented and the Company's only product for the first 18 years of its existence. Few American companies have a longer history, and none has a prouder one. Our anniversary year will be an occasion for celebration, publicity, and promotion. It will also be a reminder to all of us in the organization that corporate longevity comes not only from adaptation to change, but also from adherence to the standards of excellence that Gail Borden set for his company 125 years ago.



E. J. Sullivan

Eugene J. Sullivan
Chairman and
Chief Executive Officer

Borden Consumer Products

In its first year of operation, the Consumer Products Division far exceeded the combined results in any previous year of the two divisions — Foods and Dairy & Services — from which it was formed in October 1980. Operating income rose 17.6%, in spite of the loss of $5 million in income from divested operations, primarily sugar refining. Most of the gain was registered in the fourth quarter, even though the economy had reached its most recessionary level of the year. The improvement came on a decline in sales, of 1.2%, and reflected the division's focus on higher-margin branded products, backed by record advertising and promotional expenditures, as well as administrative efficiencies obtained from the consolidation.

Grocery Products Group markets, through brokers and warehouse distribution systems, a broad range of consumer products that carry well-established brand names. Most of the group's 12 major product lines had unit volume increases substantially ahead of their respective industry categories.

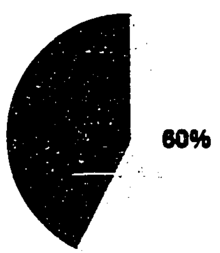
Eagle Brand sweetened condensed milk, the company's original product, enjoyed substantial sales with the support of heavy television and print advertising that positioned it as "America's dessert maker." Major promotional programs are scheduled for Eagle Brand in 1982, which marks the 125th anniversary of the commercial introduction of condensed milk by its inventor and the company's founder, Gail Borden.

The Borden drink mix line increased both its volume and market share in spite of a weak category, benefiting from the national roll-out of ReaLemon Crystals and expansion of the Wyler unsweetened line to supplement the original presweetened products. During 1982, Wyler will test market a line of artificially sweetened drink mixes using Aspartame, which was approved by the Food and Drug Administration in 1981 as a new, improved sweetener.

Volume gains were also achieved on Wyler bouillon, ReaLemon reconstituted lemon juice, and the Snow line of canned chowders and seafood. Orange Burst, a new instant breakfast drink, continued to undergo test marketing with favorable results. Orange Burst is a unique product that uses encapsulated flavors developed and patented by Borden.

As part of the company's redeployment program, the division's cheese operations withdrew from the packaging of natural cheeses for sale to the retail trade. The action removed Borden from sectors characterized by a large volume of bulk and private label sales, high inventory costs, and relatively small market share, which together resulted in a low margin business. The withdrawal also permitted the consolidation of ongoing processed cheese manufacturing operations at one facility, in Plymouth, Wis., at a reduction in operating costs.

With the redeployment virtually completed, the focus of the cheese operations shifted to major "value added" consumer products, where Borden enjoys a proprietary advantage.



Sales


Operating Income

Total assets at the end of 1979 were $3.387 billion, up 16 percent over 1978. Shareholders' equity in the Company increased 12 percent to $2.136 billion.

The Board of Directors declared two increases in the quarterly dividend in the past year, raising it from 50 cents to 55 cents a share in July and to 65 cents a share in January 1980. Since January 1977 the quarterly dividend has been raised seven times, increasing from 17 cents to 65 cents per share.

During 1979 I stated my intention to retire as chairman of the board at the end of 1980. To prepare for continuity in the direction of our programs for future growth, the Board of Directors on October 15 elected DuRay E. Stromback president and chief operating officer, and designated W. Michael Blumenthal to succeed me as chairman and chief executive officer upon my retirement. The Board elected Mr. Stromback and Mr. Blumenthal directors of the Corporation, and elected Mr. Blumenthal vice chairman upon his joining Burroughs as a full-time employee in early 1980.

Each of these men is eminently qualified. Mike Blumenthal has had a distinguished career in business where for 10 years he headed The Bendix Corporation, and in government where he served most recently as U.S. Secretary of the Treasury. Ray Stromback has 30 years of management experience with the Company, including senior positions in engineering, manufacturing and marketing. Together, they form a management team well-equipped to lead Burroughs in the 1980s.

At its meeting on January 23, 1980 the Board of Directors elected Coy G. Eklund a director of the Corporation. Mr. Eklund is president and chief executive officer and a director of The Equitable Life Assurance Society of the United States. We welcome him to our Board.

We further strengthened our senior management in January with the appointment of Donald E. Young to the new position of executive vice president, diversified products with responsibility for the Office Products Group, the Federal and Special Systems Group, and the OEM Division; and the elevation of Eugene F. Smith to senior vice president, finance.

The continuing growth of our product research, development and engineering activities was reflected in the appointments during 1979 of Lloyd D. Turner as vice president, engineering; Dr. Robert R. Johnson as vice president, advanced technology; and Robert S. Barton as vice president, research.

Other officer appointments in the past year included Kenneth L. Miller as vice president and secretary; J. Paul Leebrick Jr. as vice president, government relations; Robert J. O'Connell as vice president and group executive, Federal and Special Systems Group; Ben L. Rouse as vice president, general products and terminals on the Corporate Product Management staff; and Stanley Jones as vice president, employee and industrial relations.

As we enter the 1980s, Burroughs is firmly established in the dynamic EDP industry and organized to serve the needs of customers of every size. We are at the threshold of a new era for Burroughs – one that will be characterized by accelerating technological achievement and by market demand for innovative products that are easier to work with, more reliable, and more cost-effective. We are already well on our way to reaching these objectives through our continued exploration and development of new system architectures and very advanced programming concepts.

The computer industry has had an extraordinary record of growth over its brief 30-year history. But I believe the 1980s will far surpass the revolutionary advances of the previous three decades and bring greater progress than we have seen thus far.

Another reason for enthusiasm about the Company's future is the quality of the 56,500 Burroughs people throughout our worldwide organization. To all of them, I extend my personal congratulations and appreciation for their contributions to Burroughs success.

While we recognize the unsettled economic conditions in the U.S. and overseas, the combination of our backlog, our incoming order performance, and the recent indication of price stability in our industry gives us solid reason to expect another good year in 1980.

Paul S. Mirabito

Paul S. Mirabito
Chairman of the Board
and Chief Executive Officer

Sales of Borden snacks increased more than 20% during the year.

Tortilla chips is the fastest-growing segment of the snack food industry.

In the diet / health segment of the cheese market, Borden continued its strong No. 1 position, as volume gains in Lite-line process cheese food slices were bolstered by sales from the successful national roll-out of Lite-line Swiss slices. Substantially higher expenditures for advertising and consumer promotion contributed to the improvement.

Test marketing was extended, with favorable results, for Country Meadow slices, a lower cholesterol cheese substitute, and Cheez Twin slices, a substitute directed to the generic market.

Grocery Products' industrial products unit, which sells ingredients to other food manufacturers, achieved major growth for its key items: Borden Caps encapsulated flavors, Cheez Twin cheese substitutes, lemon concentrates and oil, and high-flavor enzyme-modified concentrated cheese products.

Snacks Group had a highly successful year, with sales up more than 20%. The increase was achieved in the face of industry-wide shortages of raw materials and a consequent surge in raw material costs.

A new plant, at Spartanburg, S.C., opened on schedule in February and by mid-year was producing a full line of corn-based snacks.

Corn-based snacks had their finest year ever. The long-established Cheez Doodles recorded a 15% gain in sales. Sales of Corn Crunchies, the Borden entry into the corn chip market, were up 68%, and sales of Wise Tortilla chips were up 17%.

The group broadened its product offerings beyond corn-and potato-based items with the introduction of a varied line of single-serve snacks made from other ingredients. The line is marketed under the Wise brand and includes chocolate chip cookies, creme filled cakes, cracker sandwiches, snacking nuts, and meat snacks. Sales were above expectations. The group also introduced in all areas a no-salt-added potato chip.

Specialty Products Group consists of the division's Confections, Pasta, and Galloway-West operations. Galloway-West produces specially formulated cheese culture media which are used by the division's dairy operations and sold to cheese factories.

Confections' two units, Cracker Jack and Deran Candy, each achieved all-time highs in sales. For Deran Candy, the upturn resulted from broader distribution, which was facilitated by the substitution of the Borden brand for the Deran brand. For Cracker Jack, sales growth was spurred by a million-dollar Super Surprise Sweepstakes promotion and by the addition of flexible-bag packaging for Cracker Jack candied popcorn, which extended its shelf exposure to two in-store locations. Cracker Jack in flexible packaging is displayed in the snack section, and in boxes is displayed in the candy section.

Cracker Jack Extra Fresh Popping Corn, a product line extension that capitalizes on the wide recognition of the Cracker Jack name, was introduced in test markets. It is a special hybrid popping corn developed after years of research. Also placed in test were two larger-size packages of Cracker Jack, which were developed in response to market surveys that show increased consumption by family groups. Both sizes — a Twin Pack of two 6-oz. bags and a 10.5 oz. Tub with resealable lid — are doing well.

In 1982, Cracker Jack will sponsor the Cracker Jack Old-Timers Baseball Classic. The game will be played July 19 in Washington D.C., and feature retired players from the American and National Leagues.

Flavor House, whose operations as a processor of nuts were closely tied to the commodities market, was sold in September under the company's assets-redeployment program.

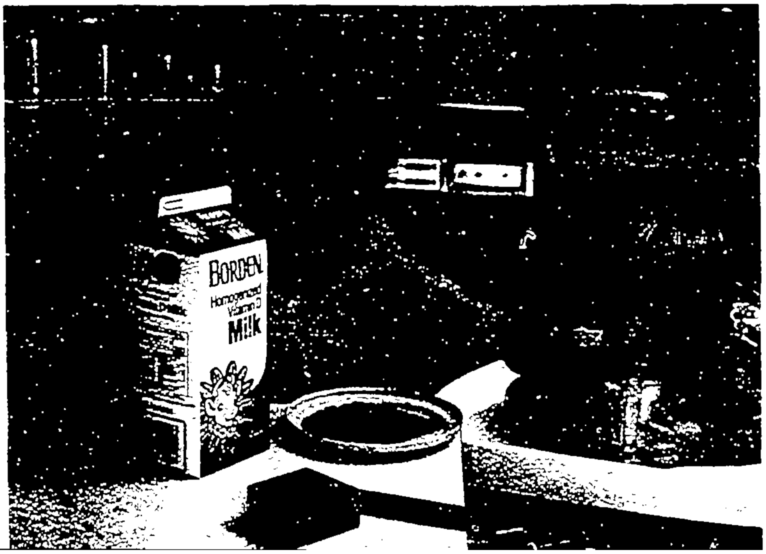
The group's *Pasta* business, under the Creamettes brand, had another record year, with large gains in tonnage sales and a new high in its share of the national pasta market. The improvement came from deeper penetration of existing markets, primarily in the Midwest, and expansion into new markets in the West.

A new production line went into operation early in the year at the Creamettes plant in Minneapolis, Minn., increasing its capacity 22%. In September, pasta operations were further enlarged with the company's acquisition of National Food Products, Inc., of New Orleans, La. National Food Products is the largest distributor of pasta in its market area, under the Luxury brand.

The division's bottled soft drink operations, administered by the Specialty Products Group and consisting of Pepsi-Cola franchises in Indianapolis, Ind., and Little Rock and Jonesboro, Ark., were sold to a subsidiary of PepsiCo, Inc., in January 1982. The operations were divested because they did not fit development plans to expand the division primarily in pasta, snacks, dry grocery products, and specialized non-food items.

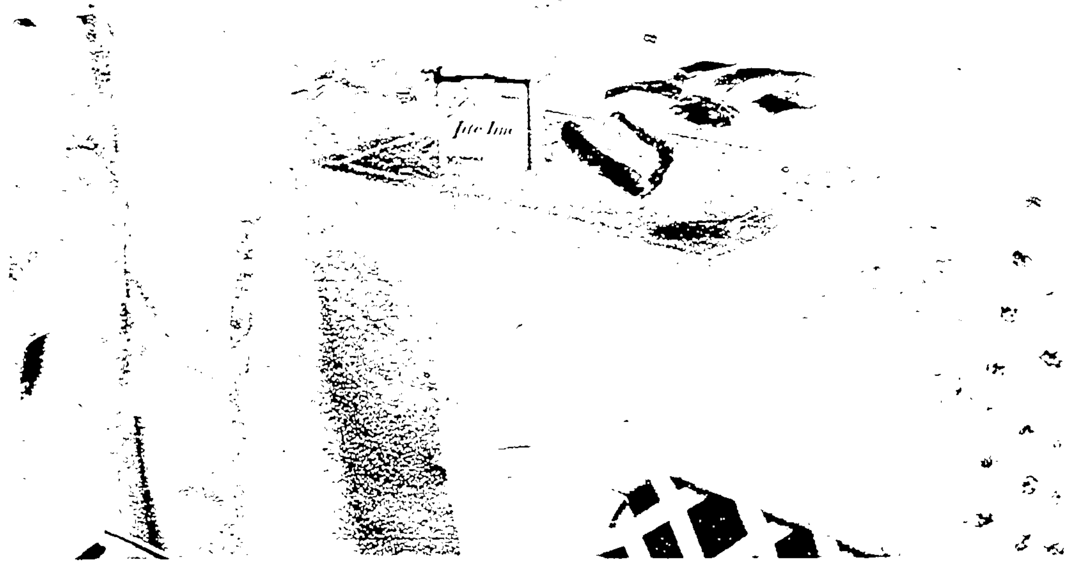
Bakery operations, under the Drake's brand, had a substantial improvement in results. The snack cake line was expanded with two entries in the large-volume sponge cake market, strawberry and banana shortcakes, and a unique entry in the cupcake market, Fudge Mates. Sales have exceeded projections. Drake's also moved into the growing market for family-sized boxed baked goods with the introduction of a line of eight premium coffee cakes and granola cookies.

New flavors and premium formulations, together with packaging for the first time in a half-gallon container, enabled Lady Borden to share in the exceptional growth in the premium-quality sector of the ice cream industry.



Borden homogenized milk had higher sales, benefiting from joint promotions with lower-fat specialties.

Paced by Lite-line process cheese food slices, Borden maintained its strong No. 1 position in the diet / health segment of the cheese market.



Borden is a leading marketer of low-fat cultured dairy products under the Lite-line brand.

Companion products: Kava, a 90% acid-neutralized instant coffee, is a Borden exclusive; Cremora is a leading non-dairy creamer.

ReaLemon is the only nationally distributed reconstituted lemon juice and the No. 1 brand.

Eagle Brand sweetened condensed milk is the company's original product and, after 125 years, still the market leader.

Borden became the first company to market aseptically packaged (sterile) orange juice. The 100% pure juice requires no refrigeration, and has a shelf life of four to six months.

The Chemical Products Group, which includes the Elmer's line of adhesives and bonding agents and the Krylon line of decorator and automobile spray paints, had a record year.

Dairy Group achieved record results, benefiting from a realignment of facilities carried out under the company's assets-redeployment program. Strong growth continued in the group's Sunbelt markets, accompanied by a further improvement in the performance of Northern dairy operations.

With its Lady Borden line, the group was well positioned to take part in the exceptional growth experienced in the premium-quality segment of the ice cream industry. New flavors and premium formulations were introduced, their acceptance enhanced by packaging for the first time in a half-gallon container. Distribution will be extended to all the group's market in 1982.

Volume sales were up strongly for Hi-Protein milk, a Borden exclusive in the fast-growing low fat category. The product has become an ideal market companion to Borden homogenized milk, benefiting the latter's sales in joint promotions.

Fruit juice was the fastest-growing segment of the group's product line. Borden became the first company to market aseptically packaged (sterile) orange juice when it introduced a single-serving Sippin' Pak in five test markets in Texas and Oklahoma in the fall. The product requires no refrigeration and has a shelf life of four to six months. Distribution will be expanded to new markets in 1982. The group is currently conducting research on aseptically processed cultured dairy products and flavored milks.

Elsie the Cow, in her 45th year as a Borden symbol, played a major role in the promotion of dairy products. The cartoon Elsie was featured in all the group's advertising, and the live Elsie visited 46 cities, among them New Orleans, La., where she took part in the Mardi Gras Parade.

Record capital investments will be undertaken on behalf of the group in 1982. A major modernization of the Houston, Tex., milk plant is underway, as is expansion of ice cream capacity at Oklahoma City, Okla., Syracuse, N.Y., and New Orleans.

Chemical Products Group, which includes the Elmer's line of adhesives and sealants and the Krylon line of decorator and automobile spray paints, was transferred to the Consumer Products Division in August. Its sales and income for 1979, 1980 and 1981 are included in the division's results.

The group had a record year, with an exceptional performance by Krylon. Both product lines benefited from the effects of several factors: a strong market in do-it-yourself home improvement and auto repair projects, major advertising and promotional support, broader sales coverage by manufacturers representatives, new-product introductions, and improvements in product formulations and packaging.

Borden Chemical

The loss of $30 million in income from divested operations and an increase of about $60 million in natural gas costs as a result of Texaco's failure to deliver under its contract caused a decline of 28.6% in operating income of the Chemical Division. Dollar sales showed a smaller percentage decrease — 12.1% — as tonnage gains in higher-priced products for specialty markets partially offset the loss of business from divested commodity lines.

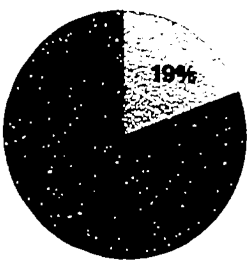
Continuing operations had a strong performance in spite of a weak industrial economy and a plunge in activity in two of the division's principal markets, housing and automobiles. Two major factors contributed to the improvement: the availability of more efficient manufacturing facilities, obtained through completion of several projects that are part of a major capital investment program now underway, and emphasis on specialty markets that are more recession-proof.

The division had the benefit of five expanded or retrofitted facilities that came on stream during 1980 and 1981. These are elements in a $1.5 billion capital investment program by the company that will run through 1985. Over $420 million has already been committed by the division. Available to the division for its operations during the year were the following:

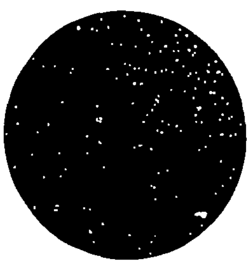
- 40 million additional pounds of acetic acid capacity, from a 40% expansion of the plant at Geismar, La. The project was completed in August 1980 at a cost of $16.3 million. Acetic acid is a component of vinyl acetate monomer, also produced at Geismar, which the division upgrades to polyvinyl acetate, used in Elmer's Glue-All and in packaging adhesives.
- 50 million additional gallons of methanol capacity, to 200 million gallons, from a retrofitting of the plant at Geismar. The facility, costing $65 million, came on line early in the year, ahead of schedule, and operated at 12% above its 180-million-gallon nameplate capacity.
- 15 million additional pounds capacity of Resinite PVC film, from a 35% expansion of a plant at Griffin, Ga., completed early in the year at a cost of $5 million. The Griffin plant was already the world's largest producer of PVC film, and it is one of four operated by the division.
- 11 million additional pounds of oriented polypropylene (OPP) film capacity, from a doubling of the operation at North Andover, Mass., completed in October at a cost of $12.5 million. OPP film is a companion product to, but non-competitive with, PVC film, and is rapidly replacing cellophane in the factory packaging of snacks, cigarettes, and other products requiring moisture protection.
- A doubling of capacity for decorated vinyl film, from installation in September of a 93-inch calender at Haverhill, Mass. The wide-width calender is one of the largest made, and opened new markets to the division in roofing, facing, and partitioning for the mining industry.

At year end, two major capital projects were underway by the division:

- A 300-million-pound PVC resins plant and chlorine recovery unit at Geismar, scheduled for completion in 1983 at a cost of $106 million. It is located next to an existing vinyl chloride monomer (VCM) plant that will supply raw material by pipeline, thereby saving the cost of conventional tank-car delivery. The PVC plant will increase the division's total capacity for resins by 60% to 800 million



Sales


Operating Income

Over $420 million has been committed to capital projects for the Chemical Division under the company's $1.5 billion capital investment program that runs through 1985. At left, work progresses on a $62.5 million retrofit of the ammonia plant at Geismar, La., scheduled for completion in the second quarter of 1982.

Packaging is one of the specialty markets served with Borden hot-melt glue chips (also shown on the cover).

Sales of Wall-Tex vinyl wallcoverings were up substantially, benefiting from a strong home-improvement market.

Clarity and sparkle are among the functional qualities of Resinite oriented polypropylene (OPP) packaging film that appeal to customers such as Stella D'oro Biscuit Co., Inc. Capacity of the OPP film plant at North Andover, Mass. was doubled during the year.

The division's five-year, $150 million natural gas exploration program was accelerated during the year, with outlays rising to $43 million.

Sales of printing inks, pigments and dispersions were ahead of year-earlier levels.

pounds and move Borden from seventh to third place among PVC producers in the U.S. The chlorine recovery unit will convert and recycle hydrocarbon wastes from the PVC and VCM plants, thereby simultaneously improving plant efficiency and eliminating waste disposal problems.

- A retrofitting of the ammonia plant at Geismar, to be completed in the second quarter of 1982 at a cost of $62.5 million. The changeover to a new technology will reduce energy usage by 39% per ton of output and lift capacity 36% to 400,000 tons per year. Ammonia is a key raw material for urea, which the division uses in the production of urea / formaldehyde resins for the plywood and particleboard industry.

As of January 1982, Borden acquired Uniroyal, Inc.'s share of the production facilities of Monochem, Inc., a joint venture formed in 1960 for the manufacture of acetylene and VCM. The acquisition increased Borden Chemical's VCM capacity by 150 million pounds, or about 20% of its captive requirements of 800 million pounds.

The division's natural gas exploration program was accelerated during the year, with outlays rising to $43 million. A $150 million, five-year program was undertaken in 1980 to provide the division in coming years with an increasing share, from its own reserves, of its requirements for natural gas, which is used as a feedstock by the Geismar petrochemical operations.

The division reduced its annual gas requirements in 1981 to about 48 billion cubic feet from 50 billion cubic feet when the high-efficiency, retrofitted methanol plant came on stream. Because adequate gas supplies were available under contract, none of the division's own reserves were fed into the delivery system, but instead were sold at market. The division, however, encountered about $60 million in higher gas costs when it was forced to find other, higher-priced sources for about half its requirements, which Texaco, Inc. had been supplying under a low-cost contract. The contract was not scheduled to expire until December 1982, but Texaco ceased deliveries under it in December 1980. Borden is suing Texaco for $200 million for breach of contract. The shortfall was made up by deliveries from other suppliers, with whom agreements took effect in December 1980 and run through 1990.

The division's focus on specialty markets for chemicals sharpened during the year with the divestiture of its remaining Smith-Douglass retail fertilizer operations and its Alex Colman women's sportswear unit. These were sold as going businesses. The division's consumer lines — including Elmer's adhesives and Krylon spray paints — were transferred to the Consumer Products Division, enabling Borden Chemical to concentrate its efforts on industrial customers.

The housing and automotive industries are major end markets for PVC resins and converted PVC products produced by the division. The severe slump in

both industries in the second half sharply depressed demand for resins used in pipe, siding, wire coatings, and furnishings. The division countered by increasing its penetration of these markets, as well as by substantially boosting volume sales of converted PVC for more specialized applications, notably packaging film, wallcoverings, and decorative laminates. There was increased demand for Resinite film used in the in-store wrapping of meats and produce. Sales of Wall-Tex brand vinyl wallcoverings registered impressive gains, benefiting from a strong home-improvement market. A thriving industry in office-building construction and rehabilitation contributed to an upsurge in sales of decorative films. These are laminated to wood, gypsum and metal substrates, and converted into such finished goods as wall panels, desks, office-equipment housing, and water coolers.

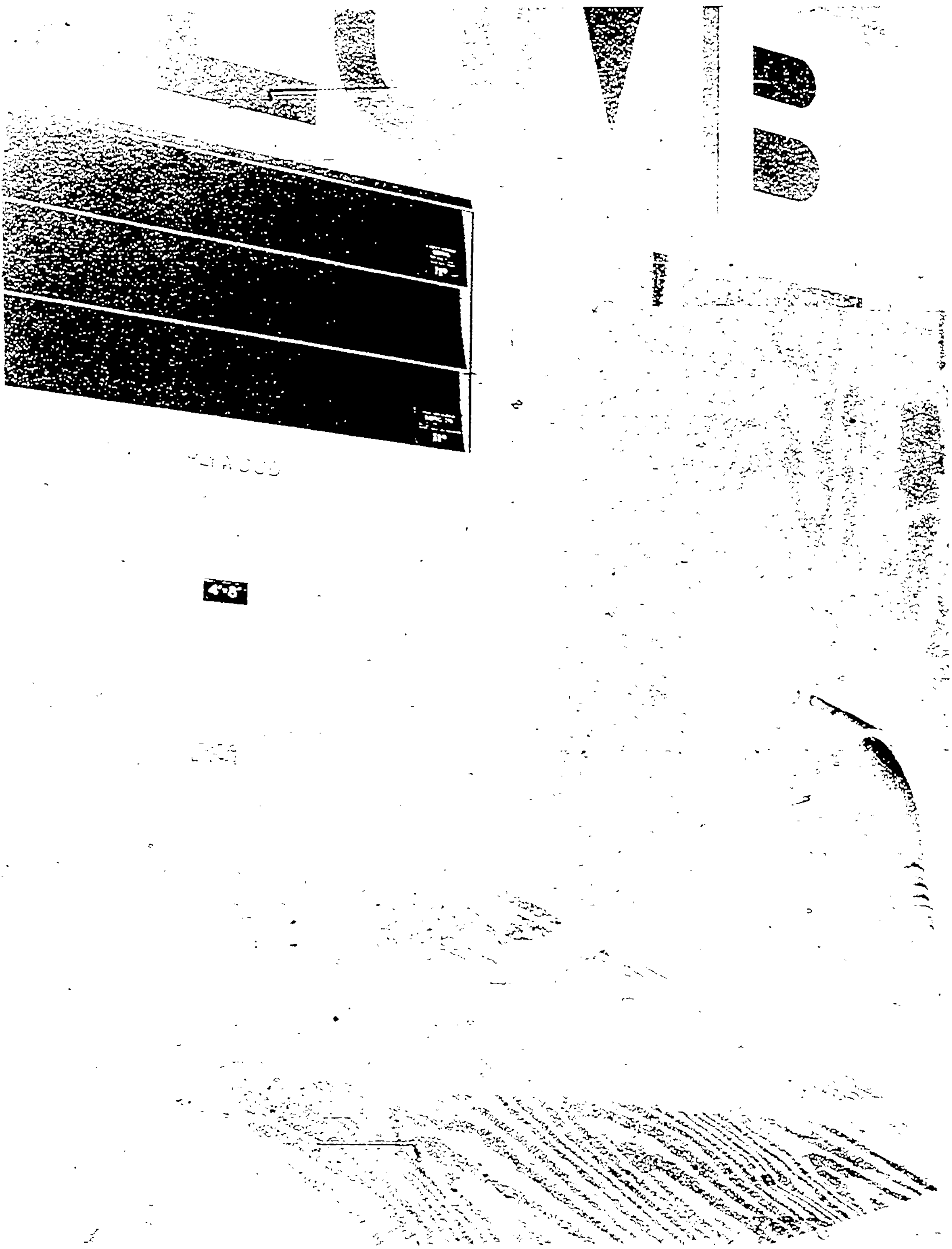
The division is a major supplier of thermosetting resins, in the form of adhesives, to the plywood and particleboard industry, and this segment of its business was adversely affected by a sharp decline in housing starts. The effect was more than offset, however, by an aggressive marketing effort focused on more specialized applications for thermosetting resins. In adhesives, the emphasis was on hot-melt glues for packaging and labeling and high-performance glues for furniture, wood-beam lamination, and oriented strand board and waferboard for structural panels. In industrial resins, where sales to foundries lagged because of fewer automobile-engine castings, the focus switched to stronger markets for dry phenolics: fiberglass binders for insulation, molded plastics (appliance housings, switch plates, carburetors), and abrasives (grinding wheels, brake linings).

The division's petrochemical operations, at Geismar, had an excellent year, benefiting from the capital additions that improved productivity as well as from more favorable markets for its products. The Geismar complex is the division's production arm, supplying methanol, ammonia, urea, vinyl chloride, vinyl acetate and other raw materials to Borden Chemical plants around the country. The plants upgrade the materials into intermediate and finished products. Any output at Geismar beyond captive needs is available for merchant sale.

Bolstered by a strong marketing effort, merchant sales of raw materials in 1981 showed a decided shift to end-use customers in specialized fields. Although the forest products industry is the major outlet for urea and formaldehyde, no significant merchant sales of these products went to manufacturers who service that industry; instead, they went to manufacturers of high-performance resins, insecticides, synthetic fabrics, fabric sizing, molding compounds, and other higher-margin applications. Similarly, a smaller share of merchant sales of ammonia and urea went to the fertilizer industry, and a larger share to specialty markets: ammonia ultimately into textiles, polyurethane foam, insecticides, fungicides, and plastic bottles, and urea into swimming pool chemicals, paper resins, and lawn care products.

A program of plant consolidations was carried out by Borden Chemical's Graphics operations during the year, as was a program to expand markets for specialty dispersions. Sales of printing inks, pigments and dispersions were ahead of year-earlier levels.

Borden is a leading supplier of liquid phenol formaldehyde, used in the newer structural panels such as oriented strand board.



A surge in home-renovation and home-improvement markets helped to offset a decline in housing starts and benefited sales of PVC resins for flooring and adhesives for plywood.

Borden Inc. International

A sluggish worldwide economy and a rise in the value of the U.S. dollar relative to most other foreign currencies affected the transactions of the International Division in 1981. These two factors caused a decline in dollar sales, of 3.5%, for the first time since the division was formed in 1970. In spite of an improvement in overall margins, a third factor — foreign exchange losses — was significant enough to also bring operating income below a year earlier, by 5.6%. Exchange losses more than doubled, to $16.7 million from $7.9 million.

EUROPE

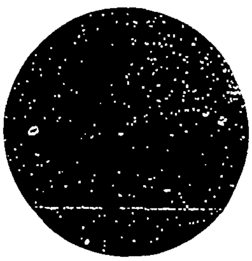
Europe in 1981 experienced its lowest level of economic activity since the Depression of the early 1930's. The European operations, however, with their varied mix of products and markets, succeeded in outperforming the economy.

In the **United Kingdom**, the division's chemical subsidiary countered the recession with an increase in share of the markets for particleboard resins and food packaging materials.

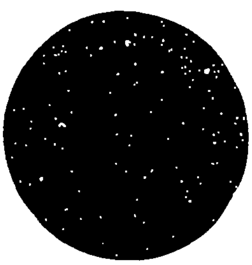
The retrofitting of a formaldehyde plant, underway at Peterlee, England, is scheduled for completion in the first quarter of 1982. The plant will use a unique process, developed by Borden and Montedison of Italy, that reduces manufacturing costs 10% below conventional methods.

In **France**, profits were maintained at year-earlier levels in French francs but declined 19% when translated into U.S. dollars.

The largest market for Borden in France is the foundry industry, to which it is a major supplier of resins. The industry experienced a recessionary fall greater than that of the economy as a whole. The industrial tape business continued to grow, however, helped by a substantial increase in sales of cable-jointing products, which were introduced in 1980. Resinite PVC film had a particularly good year; sales were well above those of a year earlier, although at slightly reduced margins.



Sales



Operating Income

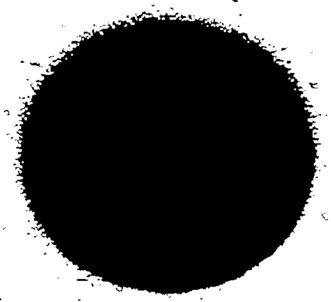
In September, Borden acquired Heller, S.A., the leading French manufacturer of plastic model kits, thereby obtaining its first household brand name in France. Heller has wide distribution and strengthens Borden's European position in packaged consumer products, especially since its model kits complement the line of Humbrol-brand hobby paints made by Borden in the United Kingdom.

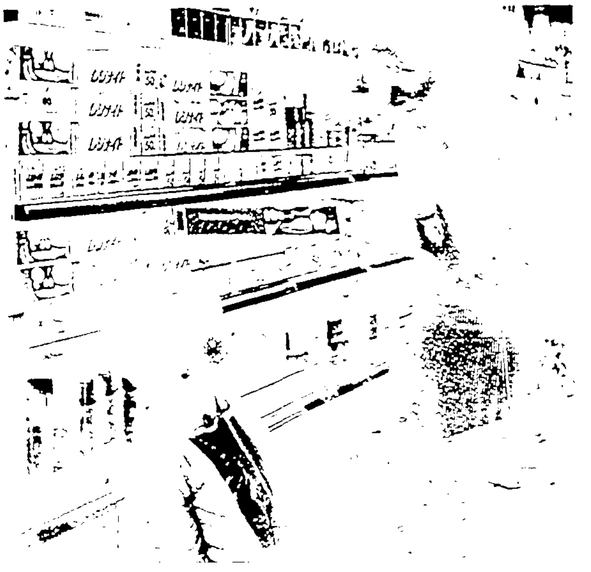
In **Spain**, the Borden food affiliate, benefiting from strong sales of its snacks and dehydrated soups, enjoyed a good year in spite of the country's recession. Exports to West Africa began and showed steady growth throughout the year.

The Spanish chemical operations experienced mixed results: considerable success in sales of industrial adhesives and Resinite PVC films, but a severe set-back in particleboard resins.

In **West Germany** and **Belgium**, the bakery operations are being reorganized to exploit the most profitable product lines and to focus more sharply on local markets, the latter move an effort to counter a sharp rise in distribution costs. A $6 million expansion of a hamburger bun line at the German bakery was completed early in the year, more than doubling capacity. The expansion makes Borden the largest manufacturer of buns in Europe.

ReaLemon is the leading brand of lemonade powder in Canada. Its share of market increased during the year.





Japan is one of 12 countries in which the division manufactures Resinite PVC packaging film.

Borden became a leader in the European hobby-kit industry with the acquisition of Heller, S.A., of France, whose plastic model kits complement the hobby paints and glues made by Borden in the United Kingdom.

KLIM powdered whole milk, the company's most widely distributed product, enjoyed record sales and profits.

Completion of a $6 million hamburger bun line at the Weber bakery in West Germany doubled capacity and made Borden the largest manufacturer of buns in Europe.

In **Denmark**, sales of Cocio, the country's largest selling brand of bottled chocolate milk, set another new high, contrary to the general trend of consumer sales.

KLIM brand whole milk powder, produced in Ireland, Denmark and Australia for export, enjoyed record sales and profits.

LATIN AMERICA

Brazil entered a deep recession that led to a decline of 11% in industrial production and to zero growth of its gross domestic product. Nonetheless, the Brazilian chemical and food operations improved on their 1980 performance.

The chemical operations achieved higher sales owing to an agressive pricing policy and a successful effort to develop export business. Facilities were completed that added 3,800 metric tons per year to capacity for solid phenolic resins, and one of six formaldehyde plants was converted to acetaldehyde production, mainly for export.

The food operations, under the Adria brand, maintained their leadership in the Brazilian pasta market, achieving a new high in sales and a sharp improvement in results owing largely to a streamlining of production and distribution. Increased exports also contributed to the upturn, as Adria began shipments to Chile, Bolivia, Africa, and the Canary Islands.

In **Ecuador**, capacity of the resins and formaldehyde plant was sold out, in spite of the addition of a 2,000-gallon resin reactor and equipment modifications to increase formaldehyde output. Consequently, a major expansion of plant capacity is scheduled for 1982.

The chemical operations in **Mexico** had a favorable year, benefiting from strong demand for molding compounds, an expansion of formaldehyde capacity, and the opening of markets for Resinite pallet wrap PVC film.

In **Colombia**, sales of the chemical operations increased following the installation of production facilities for phenolic molding compounds. For the food affiliate, sales of KLIM powdered whole milk were at an all-time high.

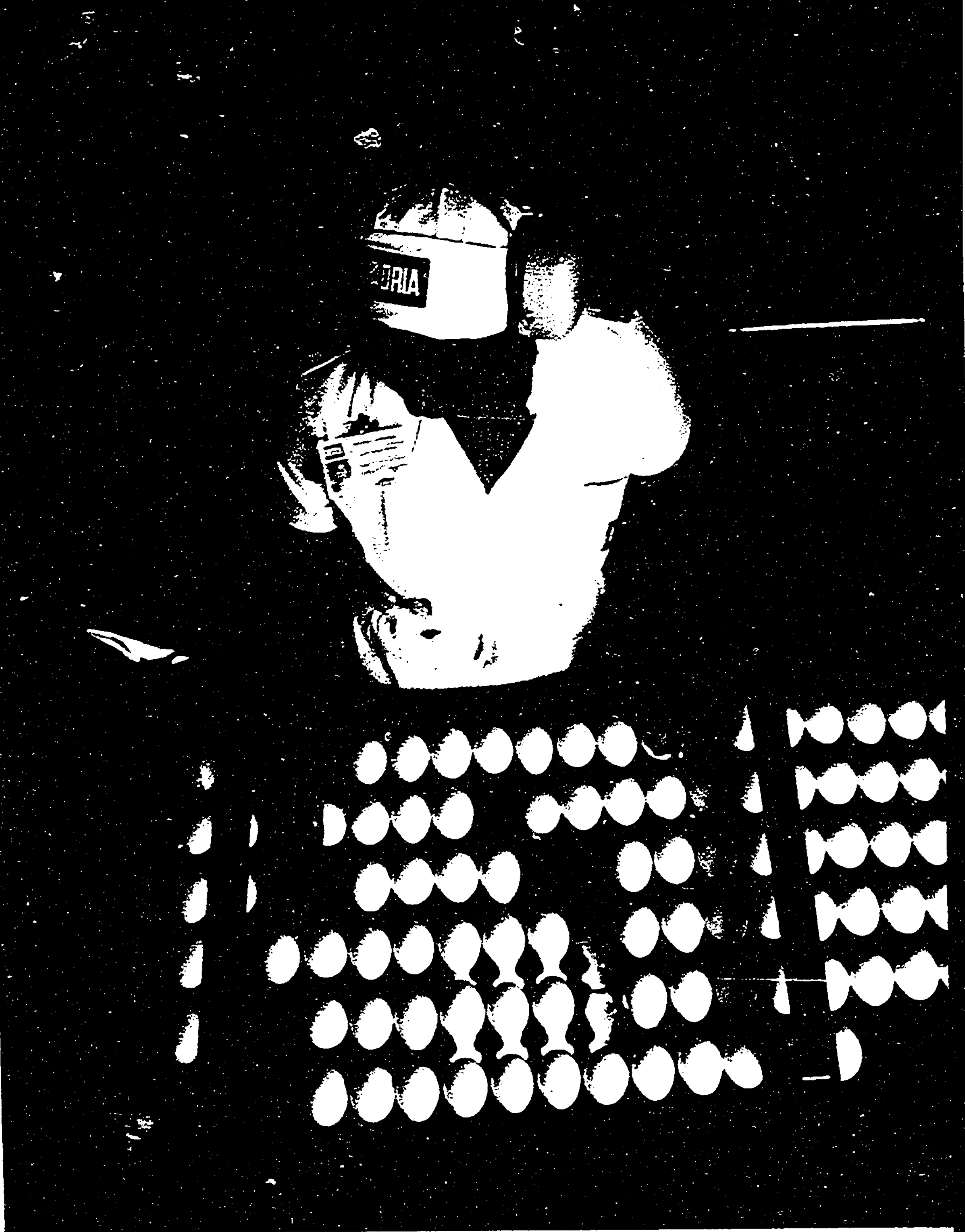
In **Puerto Rico**, where Borden is the leading full-line distributor of frozen food and dry grocery products, operating margins were restricted by strong competitive activity and the erosion of consumer purchasing power.

CANADA

Business activity suffered a severe slowdown as a result of declining markets at home and the recession in the United States, Canada's major export customer.

Results for the chemical operations were maintained at year-earlier levels in spite of a downturn in the forest products and construction industries in the second half of the year. Sales of Resinite PVC films remained strong, primarily from increased penetration of the pallet wrap market. A new Resinite plant will come on stream early in 1982 at Edmonton, Alberta, and construction began on a $5.4 million formaldehyde and resins plant at the same location, with completion scheduled for late 1982.

The food operations posted sales gains in all major categories. ReaLemon brand drink crystals improved upon its leading share position in the powdered



Adria is the leading brand of pasta in Brazil. Sales were at an all-time high.

A wide variety of locally produced Borden food products is marketed in Panama.

Increased export business contributed to higher sales by the Brazilian chemical operations. One of six formaldehyde plants was converted to acetaldehyde production mainly for export.

lemonade market, while ReaLemon brand reconstituted lemon juice experienced volume gains in spite of increased competition from generic products.

ASIA

The Asian Group enjoyed a record year in spite of mixed market conditions.

In **Australia**, the development of extensive mineral resources brought about a massive inflow of capital which, by government control, resulted in higher interest rates and a consequent decline in new construction. The economy in general, however, remained highly stable.

The division's chemical operation achieved significant penetration of the market for melamine resins used in decorative laminates, and added to its line of adhesives for the particleboard industry. Resinite's share of the established markets for PVC film increased, and the consumer market was broached with the introduction of household rolls of plastic wrap.

In **Japan**, Lady Borden ice cream marked its 10th anniversary, maintaining market leadership in the premium ice cream category. Sales equalled the record levels of a year earlier. Meiji-Borden, the joint venture in cheese, encountered strong competition but nonetheless increased volume and share of market in sliced cheese, its major category.

The division entered the **Hong Kong** market through a joint venture with The Garden Company to produce snack products. A plant is under construction in the New Territories and is scheduled to begin operation early in 1982. The Garden Company is the leading bread bakery in the Colony.

The chemical operation at Penang in **Malaysia** had a record year, in spite of a weak domestic market for plywood and particleboard resins. A new spray dryer for powdered urea / formaldehyde resins, completed late in 1980, was a significant factor contributing to higher export sales.

Borden continued as a major supplier of resins to the plywood and particleboard industry in the **Philippines**, but the market suffered from the slowdown in housing starts in the United States, Japan, and Europe. The consumer adhesives business enjoyed healthy growth, with exports to Hong Kong and Singapore at record levels.

CAN MACHINERY

The Can Machinery Group, with plants in Colorado and New York, registered higher sales. Although demand for new two-piece can making equipment has softened, a new market has developed for "speed-up" packages that upgrade the productivity of machines in the field.

EXPORT

Sales of consumer products were at an all-time high, bolstered by record shipments of the Elmer's line and breakfast drink to Saudi Arabia. The volume of petrochemical exports was also at a peak.

Social Responsibility

Borden endeavors to carry out its social responsibilities not only through philanthropic activities but also in the normal course of business through its purchasing and employment practices and advertising policies.

The Borden Foundation Inc., the company's conduit for charitable contributions, continued its support of higher education through contributions to the United Negro College Fund, Inc., and the Independent College Funds of America, Inc.

In support of another of its objectives, nutrition education, the foundation undertook funding of *The Columbia Nutrition Bulletin*, a public interest radio series written and narrated by faculty members of the Institute of Human Nutrition of the Columbia University College of Physicians and Surgeons.

Borden communities continued to benefit from foundation support to local health care facilities, United Way agencies, and youth, civic, and cultural organizations.

The company, responding to the concerns of some of its customers, reaffirmed its six-year-old policy on television advertising. Borden does not permit its commercials to appear on programs that center on violence or suggestive adult materials or that feature subjects or treatments of subjects that are below generally accepted standards of good taste.

There was further progress in the company's minority purchasing program. The number of minority vendors increased by 10%, and the dollar value of purchases, by 15%, from a year earlier. Minority-owned banks, for the first time, became a channel for the company's tax payments; $5 million was transferred through them. Other minority-owned businesses joining as suppliers included an advertising agency providing the full range of market services and a printer of full-color product labels. An insurance agency owned by women wrote policy coverage for the company.

Based on an analysis of employment data assembled in 1981, the percentage of minority employees remained steady and increased slightly in the top job categories, in spite of a decline in the number of employees because of the redeployment program. There was also an improvement in the percentage of female employees. In order to achieve larger and more rapid gains, the company has intensified its efforts to have each Borden location meet or exceed its specific goals for the hiring and promotion of minorities and females.

Changes in Directors and Officers

Robert T. Quittmeyer, chairman and chief executive officer of Amstar Corporation, was elected a director April 28.

Virginia Dwyer, vice president and treasurer of American Telephone & Telegraph Company, was elected a director May 26.

J. Richard Magner, formerly director of corporate purchasing, was elected vice president-purchasing February 24.

Frank V. Forrestal, formerly a group vice president of the International Division, was elected an executive vice president of the company and appointed president of the Consumer Products Division on April 28. He succeeded, in both positions, Marvin J. Herb, who resigned to enter business for himself.

Officers

Members of the Office of the Chairman, from left: John J. O'Connor, Bernard Nemtzow, Robert W. Gutheil, Eugene J. Sullivan, Frank V. Forrestal

EXECUTIVE OFFICERS

EUGENE J. SULLIVAN
Chairman and Chief Executive Officer

FRANK V. FORRESTAL
Executive Vice President; President, Consumer Products Division

ROBERT W. GUTHEIL
Executive Vice President; President, Chemical Division

JOHN J. O'CONNOR
Executive Vice President; President, International Division

BERNARD NEMTZOW
Executive Vice President; Chief Administrative Officer

STAFF VICE PRESIDENTS

ALFRED S. CUMMIN
Vice President-Science and Technology

LAWRENCE O. DOZA
Vice President and General Controller

FRANK L. FLORIAN
Vice President-Planning

DAVID A. KELLY
Vice President and Treasurer

WALTER W. KOCHER
Vice President and General Counsel

J. RICHARD MAGNER
Vice President-Purchasing

ALLAN L. MILLER
Vice President-Employee Relations

ROBERT G. TRITSCH
Secretary

OPERATING GROUP VICE PRESIDENTS

CHEMICAL DIVISION

JOHN S. BELLECCI
Group Vice President-Basic Chemicals

H.A. PEED
Group Vice President-Vinyl/Plastics/Ink

R.J. VENTRES
Group Vice President-Adhesives & Chemicals/ Film/Energy Resources

CONSUMER PRODUCTS DIVISION

THOMAS O. DOGGETT
Group Vice President-Chemical Products

JON G. HETTINGER
Group Vice President-Grocery Products

ROBERT P. KIRBY
Group Vice President-Dairy

JERRAL R. PULLEY
Group Vice President-Specialty Products

GEORGE W. WAYDO
Group Vice President-Snacks

INTERNATIONAL DIVISION

K.M. COLE
Group Vice President-Europe/ Middle East/Africa

HARRY G. LAMBROUSSIS
Group Vice President-Latin America, South

EDWARD I. PIERNICK
Group Vice President-Latin America, North

JOSEPH M. SAGGESE
Group Vice President-Asia/Canada/ Can Machinery/Export

ASSISTANT OFFICERS

H. CORT DOUGHTY, JR.
Assistant Secretary

SUSAN N. GARRISON
Assistant Secretary

RICHARD H. BYRD
Assistant Treasurer

FRED J. CHRVALA
Assistant Treasurer

TERRENCE W. GASPER
Assistant Treasurer

GEORGE W. SANBORN
Assistant Treasurer

L. CLARKE BUDLONG
Assistant General Controller

EUGENE C. McCARTHY
Assistant General Controller

M.H. NOTOWIDIGDO
Assistant General Controller

PAUL J. JOSENHANS
Assistant General Counsel

Directors

Theodore Cooper, M D

Virginia Dwyer

James D Finley

John W Lynn

Augustine R Marusi

Bernard Nemtzow

Robert T. Quittmeyer

W. Thomas Rice

Patricia Carry Stewart

Eugene J Sullivan

Pieter C Vink

William K Westwater

Franklin H Williams

THEODORE COOPER, M.D.
Executive Vice President
The Upjohn Company
(Pharmaceuticals)

VIRGINIA DWYER
Vice President and Treasurer
American Telephone &
Telegraph Company

JAMES D. FINLEY
Retired Chairman
J P Stevens & Co , Inc
(Textiles)

JOHN W. LYNN
Vice Chairman
F W Woolworth Co
(Retail merchandising)

AUGUSTINE R. MARUSI
Retired Chairman,
Chairman, Executive Committee

BERNARD NEMTZOW
Executive Vice President and Chief
Administrative Officer

ROBERT T QUITTMEYER
Chairman and Chief Executive Officer
Amstar Corporation
(Sweeteners-industrial and
technical products)

W THOMAS RICE
Chairman Emeritus
Seaboard Coast Line Industries, Inc
(Railroads)

PATRICIA CARRY STEWART
Vice President
The Edna McConnell Clark Foundation
(Charitable foundation)

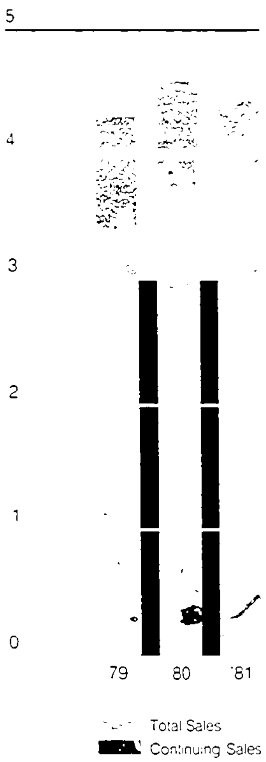
EUGENE J. SULLIVAN
Chairman and Chief Executive Officer

PIETER C. VINK
Chairman
North American Philips Corporation
(Electrical/electronic manufacturing)

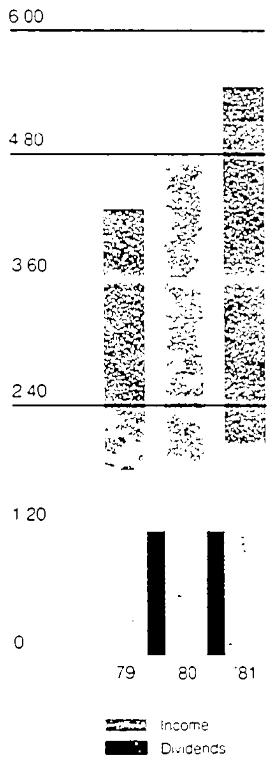
WILLIAM K WESTWATER
President
Westwater Company
(A business management firm,
Columbus, Ohio)

FRANKLIN H. WILLIAMS
President
Phelps-Stokes Fund
(Educational foundation)

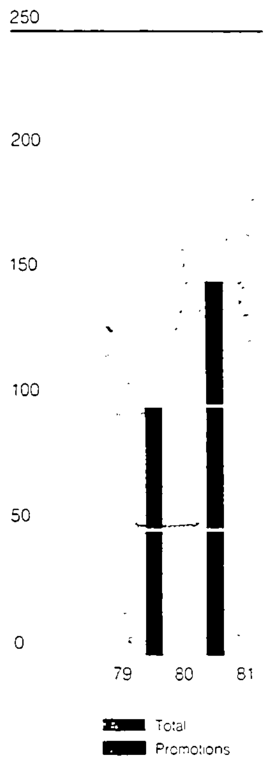
Sales
in billions of dollars



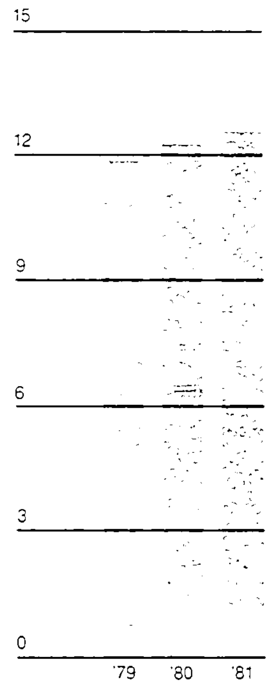
Income and Dividends Per Share
in dollars



Advertising and Promotions
in millions of dollars



Return on Average Shareholder's Equity
% return



1981 Financial Review

Total Sales and Continuing Sales

Total sales for 1981 decreased 3.9% to $4.415 billion from $4.596 billion in 1980 due to the disposal of operations under the Company's asset redeployment program. Sales adjusted for divestitures increased 8.2% in 1981 to $4.119 billion from $3.808 billion in 1980.

Income and Dividends

Net income for 1981 reached an all-time high of $159.9 million, or $5.45 per share, an increase of 8.4% over $147.5 million or $4.77 per share in 1980. Dividends for 1981 were $2.01¼ per share, an increase of 7.0% over 1980. The increase in 1981 represents the eighth consecutive yearly increase. Quarterly dividends have been paid without interruption for 83 years. Future dividends and the amount thereof will depend upon earnings, cash requirements and other relevant factors.

Advertising and Promotions

Advertising and promotions increased $25.5 million to $200.0 million in 1981 from $174.5 million in 1980. Promotions aggregated $136.5 million in 1981 against $111.9 million in 1980.

Return on Average Shareholders' Equity

Return on average Shareholders' Equity for 1981 was 12.6% up from 12.3% in 1980. A Company goal is to increase the return on average shareholders' equity to at least 15% by 1985.

Three Year Comparison of Division Sales and Operating Income (Dollars In Thousands)

	1981		1980*		1979*	
Division Sales						
Consumer Products	**$2,662,039**	**60%**	$2,693,813	59%	$2,474,416	57%
Chemical	**840,781**	**19**	956,048	21	948,104	22
International (including exports)	**912,354**	**21**	945,934	20	890,013	21
Total	**$4,415,174**	**100%**	$4,595,795	100%	$4,312,533	100%
Division Operating Income						
Consumer Products	**$ 141,705**	**49%**	$ 120,458	39%	$ 114,891	40%
Chemical	**73,814**	**25**	103,375	34	107,355	37
International (including exports)	**76,878**	**26**	81,450	27	66,015	23
Total	**292,397**	**100%**	305,283	100%	288,261	100%
Redeployment			(2,748)			
Other income and expenses not allocable to divisions and federal income taxes	**(132,458)**		(155,050)		(154,555)	
NET INCOME	**$ 159,939**		$ 147,485		$ 133,706	

Restated as explained in Note 12 and reclassified to conform with 1981 presentation

Management's Discussion and Analysis of Financial Condition and Results of Operations

Borden is primarily engaged in the purchase, manufacture, processing and distribution of a broad range of food and chemical products, both domestically and in foreign countries. Borden operates in two major industry segments: foods and chemical. Internally, Borden is organized into three operating divisions: Borden Consumer Products, Borden Chemical and Borden International. The foods segment encompasses the food related products of the Consumer Products Division and the International Division. International's products are primarily processed in overseas plants but also include exports of domestically processed products. Included in the chemical segment are the Chemical Division, the Consumer Chemicals group of the Consumer Products Divison and chemical related products of the International Division produced overseas and domestically. A breakdown of the Company's sales, operating profit and other information between the foods and chemical industry segments is presented on pages 33 and 34. A three-year summary of sales and operating income by the three operating divisions is presented on page 30. An analysis of the results achieved, financial condition and changes in financial condition in both industry segments, in terms of the Company as a whole and the divisions through which it operates, for the three most recent years follows

Liquidity and Capital Resources

Borden meets the majority of its working capital requirements through operations. The amounts provided from operations in 1981, 1980 and 1979 were $289.4 million, $276.6 million and $256.4 million, respectively. Short-term borrowings are utilized to meet temporary cash requirements. See Note 3 of the accompanying notes to Consolidated Financial Statements for further information regarding short-term borrowings.

Borden has unused lines of credit for short-term financing needs of approximately $200.0 million at December 31, 1981, all of which are with domestic lending institutions. The interest cost approximates the prime rate in effect at the date of use.

In addition to funds provided from operations, approximately $42.8 million and $82.6 million was generated in 1981 and 1980, respectively, through the sale of operations in connection with the Company's redeployment program. The Current Ratio was reduced from 1.9:1 in 1979 to 1.7:1 in 1980 by the Company's redeployment program. The disposal phase of the redeployment program has been virtually completed, and the Current Ratio has improved to 1.9:1 at December 31, 1981.

In 1981, 1980 and 1979 long-term debt financing provided $8.3 million, $16.9 million, and $110.8 million, respectively. The 1979 long-term debt financing was principally attributable to the issuance of $150.0 million

9⅜% debentures, net of $65 million used to refinance the long-term portion of lease debt. At December 31, 1981 and 1980 long-term debt was 33% and 40%, respectively of total shareholder's equity. The Company's strong financial position, and history of growth in earnings provide a solid base for obtaining substantial financial resources. If required, management believes that additional cash from long-term borrowings in excess of $200.0 million could be raised.

Capital expenditures for new facilities and improvements to existing facilities were $247.5, $197.0 and $177.7 million in 1981, 1980 and 1979, respectively. Depreciation, depletion and amortization during each of the three years was $99.4, $100.3, and $100.8 million The Company is presently two years into a $1 5 billion expansion program that is being funded primarily by operations and the redeployment program.

Borden is actively engaged in complying with environmental protection laws, as well as the various federal and state statutes and regulations relating to the production, processing, distribution and labeling of its many products. In this connection Borden incurred approximately $17.9 million of capital expenditures in 1981 as compared to $5.9 million in 1980 and $7.3 million in 1979. It is estimated that Borden will spend $9.1 million for environmental control facilities during 1982.

The Company purchased approximately 0.9 million shares of its common stock during 1981 at a total cost of $24.0 million. These treasury shares, and any additional which may be purchased in 1982, will be held for general corporate purposes, including possible future acquisitions.

Results of Operations

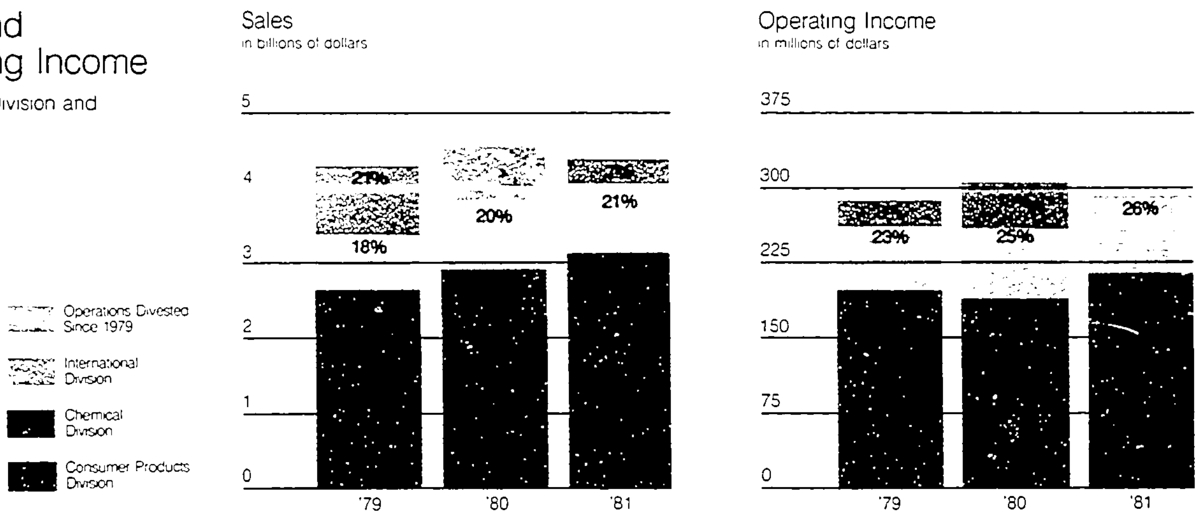
Each of Borden's operating divisions must deal with intense competition on both the local and national level Advertising and promotions were increased $25.5 million to $200.0 million in 1981 from $174.5 million in 1980. This increase followed a $25.7 million increase in 1980 from the 1979 level of $148.8 million. Higher expenditures are expected in future years to preserve and expand Borden's market share.

Raw materials and supplies used in production are purchased from a broad range of sources. Natural gas, the feedstock for Borden's petrochemical complex, is the subject of supply contracts. A favorably priced gas contract with Texaco, Inc. which supplied about half of the Company's gas requirements was interrupted in 1980, the contract was not scheduled to expire until December 1982 Borden filed suit in Federal Court in Columbus, Ohio against Texaco, Inc. alleging an anticipatory breach of one of its gas supply agreements and violation of the anti-trust laws. Damages claimed are in excess of $200.0 million before trebling. Borden has expanded its gas exploration activity with a $150.0 million, five-year gas exploration program being funded by operations and proceeds from the Company's redeployment program. Borden has contracts for all gas requirements beyond captive sources through 1990.

Borden's energy requirements are principally met by natural gas, fuel oil and electricity. An active program of conservation and capital improvements has been implemented to insure efficient use of energy. Based on information presently available, Borden will be able to meet its energy needs in 1982.

Sales and Operating Income

Ongoing by Division and Divested



The sales and operating income for divested operations are attributable to former operating units included in the company's redeployment program. Operating results for 1981 were anticipated in establishing the redeployment provision in 1980

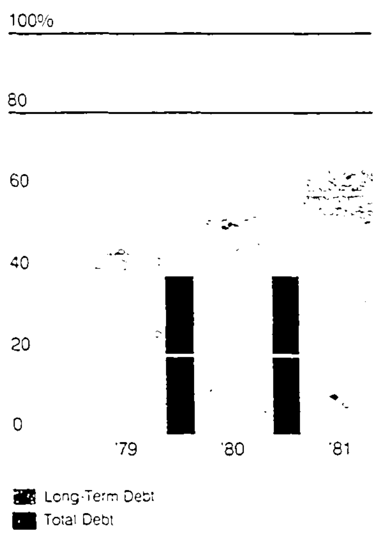
Research and development expenditures were $19.9 million in 1981, $18.9 million in 1980 and $18.1 million in 1979. The development and marketing of new food and chemical products is carried out at the divisional level and is integrated with quality controls for existing product lines.

Net sales in 1981 decreased 3.9% to $4.415 billion from 1980 sales of $4.596 billion, which had increased 6.6% from $4.313 billion in 1979. 1981 sales for continuing operations increased 8.2% over 1980. Net income increased 8.4% to a record $159.9 million from the previous high of $147.5 million in 1980, which was 10.3% higher than the $133.7 million recorded in 1979. Primary earnings per share rose 14.3% to $5.45 from $4.77 in 1980, which was 10.9% above 1979's mark of $4.30. Fully diluted earnings per share were $5.20 compared with $4.56 in 1980 and $4.11 in 1979. The increase in earnings per share resulted from a combination of increased net income and a reduction in shares outstanding. Earnings in 1981, 1980, and 1979 reflect net foreign exchange losses of $17.3 million, $7.3 million and $15.0 million, respectively. Earnings were favorably affected by increased interest income in both 1981 and 1980 due to higher investments made possible by proceeds from the redeployment program and generally higher interest rates. Partially offsetting this favorable effect was an increase in interest expense for each of the years principally attributable to escalating interest rates. Income taxes in 1981 were $79.5 million versus $95.3 million in 1980 and $85.6 million in 1979. The effective income tax rate was 33.2% in 1981, 39.3% in 1980 and 39.0% in 1979. The reduced 1981 tax rate is due primarily to higher investment tax credits and other tax benefits.

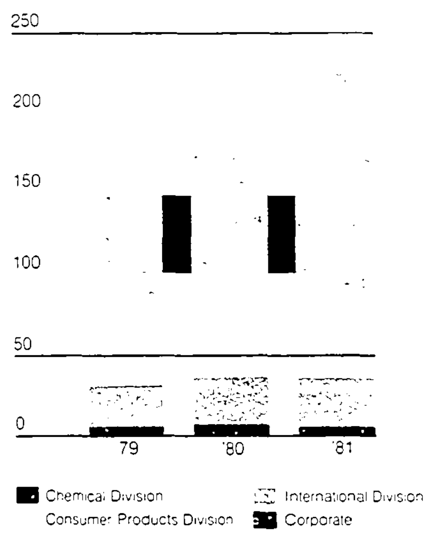
The Consumer Products Division's 1981 sales declined 1.2% to $2.662 billion from $2.694 billion in 1980, primarily as a result of the divestiture of the Division's sugar refining operations in 1980. Sales from continuing operations, led by the dairy, dry grocery, and snack operations, increased over the like period a year earlier for each of the Division's operating groups; the increase of 9.4% was due to generally higher prices and some volume increases. Operating income for the Division rose 17.6% to $141.7 million, from $120.5 million. Operating income from continuing operations increased 23.7%, reflecting improved performances by grocery products (primarily Wyler drink mixes and bouillon, condensed milk, and Bama sweets), dairy operations (primarily milk and ice cream sold in the Southwest), and bakery operations. The Division's sales and operating income improved in 1980 versus 1979 reflecting higher prices and moderately higher volume in packaged cheese, cheese substitutes, specialty and dairy operations.

The Chemical Division's 1981 sales declined 12.1% to $840.8 million from $956.0 million in 1980, primarily due to the 1981 divestiture of the Smith-Douglass retail fertilizer business and the Alex Colman clothing line and the 1980 divestitures of Mystik Tape, Molded Products and the Florida phosphate operations. Sales from continuing operations increased 17.9% over the year ago period. The 1981 operating income of $73.8 million was 28.6% below the 1980 amount of $103.4 million. The

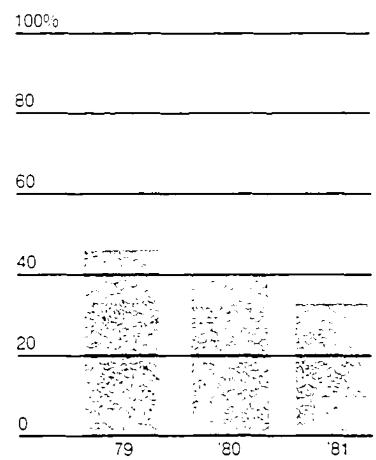
Funds Provided From Operations as a Percent of Long-Term Debt and Total Debt



Capital Expenditures by Division
in millions of dollars



Long-Term Debt as a Percent of Equity



decline is primarily due to the divestiture of the agriculture business and higher natural gas feedstock cost caused by the termination of deliveries in December 1980 under a low-cost natural gas contract by Texaco, Inc Operating income from continuing operations decreased 0.3% from the 1980 level. Profit increases registered in the adhesives, plastic film and energy group, and the petrochemical operations nearly offset the higher cost of natural gas feedstock. The Chemical Division's 1980 operating income declined from 1979 on a 0.8% increase in sales, primarily due to foregone income on divested operations.

The International Division's 1981 sales declined 3.5% to $912.4 million from $945.9 million in 1980, primarily as a result of the sluggish worldwide economy and a rise in the value of the U S. dollar relative to most other foreign currencies. Sales from continuing operations declined 1.1%. Operating income declined 5.6% to $76.9 million in 1981 from $81.5 million in 1980; on continuing operations the decline amounted to 0.8%. The decline is a result of lower margins on exports of industrial and agricultural chemicals, increased foreign exchange losses, slower economic activity abroad, and the loss of income on operations divested in 1980. Partially offsetting the decline were increases in the food operations in Colombia and Canada. The Division's 1980 sales and operating income increased from 1979 reflecting improved results by all geographic groups, particularly the food and chemical operations in Europe and the chemical operations in Brazil and Australia.

Inflation

The high rate of inflation experienced worldwide has had an impact on the Company's reported earnings, shareholders' equity and other financial information which is not measured by traditional accounting methods. Pages 47 and 48 present certain financial information adjusted for inflation in acordance with Statement of Financial Accounting Standard No. 33, an experimental approach for estimating and evaluating the impact of inflation.

Business Segments

Borden, Inc., as discussed on the previous pages, operates in two major industry segments: foods and chemical. Corporate departments provide certain centralized services for the corporation and all operating units. The Company's general offices are located in Columbus, Ohio and its executive offices in New York City. Production facilities are located throughout the United States and in many foreign countries. The Company considers that its operating properties are generally well maintained, and effectively utilized.

The foods segment encompasses the following: The food products of the Consumer Products Division, including in its product lines—processed cheese, non-dairy creamer, reconstituted lemon and lime juice, dehydrated potatoes, instant coffee, sweetened condensed milk, snack foods and cakes, confections, powdered soft drinks, jams and jellies, pasta, seafood, homogenized milk, buttermilk, chocolate drink, ice cream and milks, sherbets, yogurt, cottage cheese, frozen novelties, dips, egg nog, sour cream, low-fat dairy products, milk-based products for the industrial trade, fruit drinks and bottled carbonated soft drinks; and the International Division's food products processed in domestic plants but exported outside the United States, and food and dairy products processed in overseas plants. As of December 31, 1981 the Consumer Products Division operated 86 manufacturing and processing facilities, the most significant being the Wisconsin cheese facilities, the Illinois powdered soft drink operations, the snack group operations in Pennsylvania, Florida, Missouri, South Carolina, Texas, and Ohio, the confectionery operations located principally in Illinois, the bakery operations in New Jersey, and the dairy facilities, all of which are approximately the same size, located principally in the midwest, south, and southwest; and the International Division operated 24 food and dairy manufacturing and processing facilities located principally in Brazil, Western Europe and Puerto Rico.

Included within the chemical segment are the Chemical Division, the Consumer Chemicals group of the Consumer Products Division, and chemical related products of the International Division produced overseas and domestically. This segment is a major producer of basic petrochemicals and thermoplastics including polyvinyl acetate, PVC latex and resins, formaldehyde, methanol, ammonia, urea and acetic acid; most of which are utilized in the segment's downstream production facilities which produce synthetic adhesives for the forest products and packaging industries, transparent wrapping film, printing inks, vinyl film for wall coverings and other applications, glue and spray paint. As of December 31, 1981 the Chemical Division operated 45 manufacturing and processing facilities, the most significant being the Division's petrochemical complex in Louisiana, and the thermoplastics and Resinite operations in Massachusetts and Illinois; and the International Division operated 45 chemical manufacturing and processing facilities located principally in Brazil and Western Europe.

Domestic products for the foods segment are marketed primarily through food brokers and distributors, and directly to wholesalers, retail stores, food processors,

Business Segments

	(In thousands) Years ended December 31	1981	1980*	1979*
NET SALES	Foods	**$2,990,306**	$3,048,089	$2,858,746
	Chemical	**1,424,868**	1,547,706	1,453,787
	Total	**$4,415,174**	$4,595,795	$4,312,533
OPERATING PROFIT	Foods	**$ 166,809**	$ 135,739	$ 133,599
	Chemical	**140,954**	181,950	165,730
	Total segments	**307,763**	317,689	299,329
	Redeployment	**—**	(2,748)	—
	General corporate expenses	**(2,720)**	(14,591)	(25,014)
	Interest expense	**(65,604)**	(57,565)	(55,009)
	Earnings before income taxes	**$ 239,439**	$ 242,785	$ 219,306
IDENTIFIABLE ASSETS	Foods	**$1,181,663**	$1,201,472	$1,260,767
	Chemical	**1,144,128**	966,181	1,101,292
	Total segments	**2,325,791**	2,167,653	2,362,059
	Corporate assets	**183,025**	481,991	106,801
	Total	**$2,508,816**	$2,649,644	$2,468,860
DEPRECIATION, DEPLETION, AND AMORTIZATION	Foods	**$ 46,914**	$ 48,777	$ 48,001
	Chemical	**48,832**	48,873	50,380
CAPITAL EXPENDITURES	Foods	**$ 59,985**	$ 64,138	$ 55,208
	Chemical	**183,819**	126,506	118,262
FOREIGN OPERATIONS	Net sales	**$ 726,780**	$ 754,982	$ 694,394
	Operating profit	**59,211**	54,014	39,519
	Identifiable assets	**561,694**	527,263	493,142

**Restated as explained in Note 12 and reclassified to conform with 1981 presentation*

institutions and governmental agencies. The chemical segment products are sold throughout the United States to industrial users and, in the case of consumer products, by an in-house and independent sales force to distributors, wholesalers, jobbers and dealers. To the extent practicable, international distribution techniques parallel those used in the United States. However, raw materials, production considerations, pricing competition, governmental policy toward industry and foreign investment and other factors vary substantially from country to country for both industry segments.

Segment operating profit as shown above is total revenue less operating expenses. In computing segment operating profit none of the following items have been deducted from revenues: general corporate expenses, interest expense and federal, state and local income taxes. Division operating income appearing on page 30 differs from segment operating profit due primarily to the responsibility which the divisions assume for state and local income taxes. Minority interests in earnings of certain subsidiaries and the Company's equity in earnings of unconsolidated 20% to 50% owned companies were immaterial and have been included in segment operating profit.

Identifiable assets by segment are those assets that are used in the segments' operations. Corporate assets are principally cash, cash items and assets of redeployed operations.

Five-Year Selected Financial Data

BORDEN, INC

(All dollar and share figures in thousands-except market price and per share statistics)

Summary of Earnings	1981	1980*	1979*	1978*	1977*
Net sales	**$4,415,174**	$4,595,795	$4,312,533	$3,802,559	$3,481,278
Income taxes	**79,500**	95,300	85,600	83,800	92,600
Net income	**159,939**	147,485	133,706	135,298	125,940
Percent of net income to sales	**3.6%**	3.2%	3.1%	3.6%	3.6%
Net income per common share and equivalents:					
Primary	**$ 5.45**	$ 4.77	$ 4.30	$ 4.36	$ 4.04
Fully diluted	**5.20**	4.56	4.11	4.17	3.86
Dividends:					
Common share	**2.01¼**	1.88	1.79½	1.68	1.52
Preferred series B share	**1.32**	1.32	1.32	1.32	1.32
Average number of common shares and equivalents assumed outstanding during the year for calculation of:					
Primary earnings per share	**29,367**	30,889	31,123	31,018	31,190
Fully diluted earnings per share	**31,066**	32,708	32,971	32,873	33,127
Financial statistics					
Capital expenditures	**$ 247,500**	$ 196,951	$ 177,723	$ 167,003	$ 156,876
Inventories	**400,917**	506,017	542,073	507,461	464,117
Property, plant and equipment, net	**1,093,340**	990,321	990,146	882,234	784,769
Depreciation, depletion and amortization	**99,423**	100,322	100,777	87,486	78,099
Total assets	**2,508,816**	2,649,644	2,468,860	2,171,538	1,994,959
Current assets	**1,107,653**	1,362,782	1,185,926	1,072,290	1,012,080
Current liabilities	**588,559**	788,780	615,069	551,942	493,176
Working capital	**519,094**	574,002	570,857	520,348	518,904
Current ratio	**1.9:1**	1.7:1	1.9:1	1.9:1	2.1:1
Long-term debt	**$ 435,549**	$ 490,201	$ 538,613	$ 439,543	$ 395,412
Long-term debt-to-equity percent	**33%**	40%	46%	41%	39%
Shareholders' equity	**$1,318,755**	$1,227,422	$1,177,940	$1,065,368	$1,015,857
Liquidating value of preferred stock	**(1,065)**	(1,138)	(1,575)	(1,695)	(2,079)
Common shareholders' equity	**1,317,690**	1,226,284	1,176,365	1,063,673	1,013,778
Equity per common share at year-end	**44.98**	41.32	37.75	35.58	32.59
Return on average shareholders' equity	**12.6%**	12.3%	11.9%	13.0%	12.9%
Shareholders' Data					
Outstanding shares at year-end:					
Common	**29,298**	29,681	31,160	29,895	31,105
Preferred series B	**37**	39	55	59	72
Market price of common stock:					
At year-end	**$ 28**	$ 25¾	$ 23⅞	$ 25½	$ 30⅝
Range during year	**30-25**	27⅞-19⅝	27⅞-23⅞	31⅜-25¼	36⅜-29⅛
Number of common shareholders	**55,884**	59,562	61,632	62,743	63,584
Employees' Data					
Payroll	**$ 573,000**	$ 584,500	$ 552,000	$ 518,000	$ 472,000
Average number of employees	**35,200**	38,400	39,300	39,600	38,100

**Restated as explained in Note 12 and reclassified to conform with 1981 presentation.*

Consolidated Statements of Income

BORDEN, INC.

(In thousands except per share data)		Year Ended December 31 1981	1980*	1979*
Revenue	Net sales	**$4,415,174**	$4,595,795	$4,312,533
Costs and Expenses	Cost of goods sold	**3,560,087**	3,753,353	3,537,006
	Marketing, general and administrative expenses	**570,396**	549,955	502,501
	Interest income, equity in income of affiliates, royalties, and other, net	**(20,352)**	(10,611)	(1,289)
	Interest expense	**65,604**	57,565	55,009
	Redeployment	**—**	2,748	—
	Income taxes	**79,500**	95,300	85,600
		4,255,235	4,448,310	4,178,827
Earnings	Net income	**$ 159,939**	$ 147,485	$ 133,706
Share Data	Net income per share:			
	Primary	**$ 5.45**	$ 4.77	$ 4.30
	Fully diluted	**5.20**	4.56	4 11
	Cash dividends per common share	**2.01¼**	1 88	1.79½
	Average number of common shares and equivalents assumed outstanding during the year	**29,367**	30,889	31,123

*Restated as explained in Note 12

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Financial Position

BORDEN, INC.

(In thousands)		Year Ended December 31 1981	1980*	1979*
Financial Resources Provided	Operations:			
	Net income	**$159,939**	$147,485	$133,706
	Depreciation, depletion and amortization	**99,423**	100,322	100,777
	Deferred income taxes	**32,250**	3,300	19,800
	Other non-working capital items, net (1980 includes write-down of fixed assets to estimated net realizable value as part of redeployment)	**(2,168)**	25,523	2,154
	Total provided from operations	**289,444**	276,630	256,437
	Divestitures of businesses pursuant to redeployment, net of working capital	**42,792**	82,595	
	Property disposals	**9,918**	8,834	19,455
	Long-term debt financing (net of long-term refinancing of $65,000 in 1979)	**8,285**	16,933	110,783
	Issuance of stock in connection with acquisitions	**5,637**	4,244	40,454
	Other changes in non-current assets and liabilities	**2,609**	(245)	(221)
		358,685	388,991	426,908
Financial Resources Applied	Capital expenditures	**247,500**	196,951	177,723
	Reduction in long-term debt	**64,543**	59,725	22,148
	Cash dividends	**59,110**	57,976	55,437
	Purchase of treasury stock	**24,016**	44,369	7,609
	Increase in long-term investments	**12,463**	14,163	24,454
	Purchase of businesses, net of working capital acquired	**5,961**	12,662	89,028
		413,593	385,846	376,399
	Increase (Decrease) in Working Capital	**$ (54,908)**	$ 3,145	$ 50,509
Working Capital	Detail of increase (decrease) in working capital:			
	Cash (including time and certificates of deposit)	**$(133,316)**	$160,049	$ 22,868
	Accounts receivable	**(13,096)**	9,160	52,644
	Inventories	**(105,100)**	(36,056)	34,612
	Other current assets	**(3,617)**	43,703	3,512
	Debt payable within one year	**24,171**	(23,806)	(7,410)
	Accounts and drafts payable	**42,713**	10,562	(43,757)
	Income taxes	**60,301**	(54,429)	2,297
	Other current liabilities	**73,036**	(106,038)	(14,257)
	Increase (Decrease) in Working Capital	**$ (54,908)**	$ 3,145	$ 50,509

**Restated as explained in Note 12 and reclassified to conform with 1981 presentation.*

See accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheets

BORDEN, INC.

(In thousands except share and per share data)

ASSETS		December 31 1981	1980*
Current Assets	Cash (including time and certificates of deposit of $57,636 and $181,512, respectively)	**$ 130,855**	$ 264,171
	Accounts receivable (less allowance for doubtful accounts of $10,214 and $10,006, respectively)	**486,451**	499,547
	Inventories:		
	Finished and in process goods	**250,884**	338,271
	Raw materials and supplies	**150,033**	167,746
	Other current assets	**89,430**	93,047
		1,107,653	1,362,782
Investments and Other Assets	Investments in and advances to affiliated companies (at cost plus equity in undistributed income)	**48,496**	44,429
	Miscellaneous investments and receivables (at cost or less)	**37,201**	33,100
	Other assets	**33,146**	26,040
		118,843	103,569
Property and Equipment	Land	**46,458**	45,915
	Buildings	**328,843**	337 915
	Machinery and equipment	**1,427,078**	1,328,103
		1,802,379	1,711,933
	Less accumulated depreciation	**(709,039)**	(721,612)
		1,093,340	990,321
Intangibles	Intangibles resulting from business acquisitions	**188,980**	192,972
		$2,508,816	$2,649,644

**Restated as explained in Note 12 and reclassified to conform with 1981 presentation*

See accompanying Notes To Consolidated Financial Statements

LIABILITIES AND SHAREHOLDERS' EQUITY

		December 31 1981	1980*
Current Liabilities	Debt payable within one year	**$ 90,449**	$ 114,620
	Accounts and drafts payable	**303,718**	346,431
	Income taxes	**19,016**	79,317
	Other current liabilities	**175,376**	248,412
		588,559	788,780
Other	Long-term debt	**435,549**	490,201
	Deferred income taxes	**157,005**	124,755
	Other long-term liabilities	**1,876**	10,618
	Minority interests in consolidated subsidiaries	**7,072**	7,868
		601,502	633,442
Shareholders' Equity	Capital Stock:		
	Preferred stock—no par value		
	Authorized 10,000,000 shares		
	Issued series B convertible—36,869 shares and 39,407 shares, respectively (involuntary liquidating value of $1,065 or $28.88 per share at December 31, 1981)	**152**	163
	Common stock—$3.75 par value		
	Authorized 60,000,000 shares		
	Issued 31,678,138 and 31,370,680 shares, respectively	**118,793**	117,640
	Paid in capital	**204,913**	197,172
	Retained earnings	**1,057,645**	956,816
		1,381,503	1,271,791
	Less common stock in treasury (at cost)— 2,379,685 shares and 1,689,685 shares, respectively	**(62,748)**	(44,369)
		1,318,755	1,227,422
		$2,508,816	$2,649,644

Consolidated Statements of Shareholders' Equity

BORDEN, INC.

(In thousands)	For the Three Years Ended December 31, 1981				
	CAPITAL STOCK ISSUED				
	Preferred Series B	Common	Paid-In Capital	Retained Earnings*	Treasury Stock
Balance, December 31, 1978 as previously reported	$242	$116,652	$192,327	$ 795,864	$(32,891)
Cumulative effect of retroactive restatement for compensated absences				(6,826)	
Balance, December 31, 1978 as restated	242	116,652	192,327	789,038	(32,891)
Net income				133,706	
Cash dividends:					
Common stock				(55,364)	
Preferred series B				(73)	
Stock reacquired for acquisitions and treasury					(7,609)
Treasury stock issued for acquisition of businesses					40,453
Convertible Debentures and Preferred series B stock converted	(17)	159	1,055		46
Stock issued for exercised options and Management Incentive Plan		39	176		1
Balance, December 31, 1979	225	116,850	193,558	867,307	
Net income				147,485	
Cash dividends:					
Common stock				(57,918)	
Preferred series B				(58)	
Stock reacquired for acquisitions and treasury					(44,369)
Common stock issued for acquisition of businesses		711	3,533		
Convertible Debentures and Preferred series B stock converted	(62)	62	2		
Stock issued for exercised options and Management Incentive Plan		17	79		
Balance, December 31, 1980	163	117,640	197,172	956,816	(44,369)
Net income				159,939	
Cash dividends:					
Common stock				(59,060)	
Preferred series B				(50)	
Stock reacquired for acquisitions and treasury					(24,016)
Treasury stock issued for acquisition of businesses			(29)		5,637
Convertible Debentures and Preferred series B stock converted	(11)	1,085	7,390		
Stock issued for exercised options and Management Incentive Plan		68	380		
Balance, December 31, 1981	**$152**	**$118,793**	**$204,913**	**$1,057,645**	**$(62,748)**

*Restated as explained in Note 12

See accompanying Notes to Consolidated Financial Statements

Notes To Consolidated Financial Statements

(In thousands except share and per share data)

1. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company, as summarized below, are in conformity with generally accepted accounting principles.

Principles of Consolidation—The consolidated financial statements include the accounts of Borden, Inc. and its subsidiaries, after elimination of material intercompany accounts and transactions. The Company's proportionate share of the net earnings of unconsolidated 20% to 50% owned companies is included in income. The carrying value of these companies approximates Borden's interest in their underlying net assets. Investments of less than 20% ownership are carried at cost.

Intangibles—The excess cost of investments over net tangible assets of businesses acquired is carried as Intangibles in the Consolidated Balance Sheets. It is the Company's policy to carry intangibles arising prior to November, 1970 at cost until such time as there may be evidence of diminution in value or the term of existence of such value becomes limited. Intangibles arising after October, 1970 are being amortized on a straight-line basis over a forty-year period.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined generally using the average cost and first-in, first-out methods.

Property and Equipment—Land, buildings and machinery and equipment are carried at cost.

Depreciation is recorded on the straight-line basis by charges to costs and expenses at rates based on the estimated useful lives of the properties (average rates for buildings—3%; machinery and equipment—7%).

Major renewals and betterments are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts. Gains or losses from normal retirements and disposals are credited or charged to accumulated depreciation, while gains and losses from other retirements and disposals are credited or charged to income.

Gas program expenditures are accounted for according to the "full cost" method whereby the cost of acquisition, exploration and development of gas properties are capitalized.

Depletion of gas properties is computed using the unit-of-production method based upon the estimated reserves underlying all gas properties.

Income Taxes—The provision for income taxes includes federal, foreign, state and local income taxes currently payable and those deferred because of timing differences between income for financial statements and income for tax purposes. Investment tax credits are recorded as a reduction of current income tax expense in the years realized. A substantial portion of the undistributed earnings of the foreign subsidiaries and DISC have been reinvested and are not expected to be remitted to the parent company. Accordingly, no additional federal income taxes have been provided on such earnings (approximately $235,000 at December 31, 1981).

Pension Plans—Substantially all of the Company's employees in the United States and Canada are covered under one of the Company's pension plans or one of the union-sponsored plans to which the Company contributes. Pension expenses for the Company's plans, determined for domestic employees in accordance with the funding requirements of the Employee Retirement Income Security Act of 1974, comprise current service costs and amortization of prior service costs, effectively, over a thirty year period. It is the Company's policy to fund pension costs accrued for qualified plans.

Development and Promotion Expenses—Research and development expenditures are expensed when incurred as are advertising and promotion expenses.

Earnings Per Share—Primary earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents (Convertible Preferred Stock and Stock Options) assumed outstanding during the year of computation.

Fully diluted earnings per share are computed based on the weighted average number of shares of Common Stock and Equivalents assumed outstanding during the year, as if the Convertible Debentures had been converted at the beginning of the period and after giving effect to the elimination of interest expense, less income tax effect, applicable to the Convertible Debentures.

(In thousands except share and per share data)

2. Foreign Affiliates

After translation into United States dollars, the Company's proportionate share of net assets of foreign affiliates included in the consolidated financial statements was $300,000 at December 31, 1981 compared to $283,000 at December 31, 1980.

Realized and unrealized net foreign exchange losses aggregating $17,300, $7,300 and $15,000 were charged against net income in 1981, 1980, and 1979, respectively.

3. Debt, Lease Obligations and Commitments

Debt outstanding at December 31, 1981 and 1980 is as follows:

	1981		1980	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
Sinking Fund Debentures				
2⅞% due 1981				$25,000
4⅜% due 1991	$ 18,000	$ 3,806	$ 20,000	3,852
5¾% due 1997	56,250	3,750	60,000	3,750
8½% due 2004	100,000		100,000	
9⅜% due 2009	150,000		150,000	
Debentures repurchased	(15,273)	(3,798)	(9,386)	(5,319)
Convertible Debentures.				
6¾% due 1991	23,309		29,186	
5% due 1992	22,628		25,216	
Swiss Franc Notes.				
8¼% due 1985			14,561	3,640
7⅝% due 1986			11,567	
Other borrowings (at an average rate of 13 9% and 10.8%, respectively)	80,635	13,254	89,057	18,062
CURRENT MATURITIES OF LONG-TERM DEBT		17,012		48,985
Foreign Bank Loans (at average rates of 24 8% and 28 3%, respectively)		73,437		65,635
TOTAL DEBT	$435,549	$90,449	$490,201	$114,620

The 6¾% Convertible Debentures (Eurodollar obligations) are convertible into Common Stock of Borden, Inc. at $28.75 a share and are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the face amount plus annually decreasing premiums to 1986.

The 5% Convertible Debentures (Eurodollar obligations) are convertible into Common Stock of Borden, Inc. at $31.50 a share and are redeemable at the Company's option except in certain defined circumstances. The redemption price will be equal to the face amount plus annually decreasing premiums to 1987.

Aggregate maturities of long-term debt and minimum annual rentals under agreements classified and accounted for as operating leases at December 31, 1981 are as follows:

	Long-Term Debt*	Minimum Rentals on Operating Leases
1982	$ 17,012	$ 16,198
1983	35,515	13,769
1984	6,417	10,576
1985	20,447	8,575
1986	18,283	4,632
1987 and beyond**	354,887	9,401

* Net of debentures repurchased

** Figures represent combined totals for all years

Average short-term debt, consisting of foreign bank loans and commercial paper, amounted to $125,800 and $97,900 during 1981 and 1980, respectively, with corresponding weighted average interest rates of 18.9% and 17.4%. Maximum month-end short-term debt was $163,300 and $145,400 in 1981 and 1980, respectively. Commercial paper issued and redeemed during 1981 was sold on the open market in the U.S. through a money market dealer.

The Company has unused lines of credit for short-term financing needs, aggregating approximately $200,000 at December 31, 1981 with interest rates approximating the prime rate in effect at date of use.

Pursuant to the arrangements covering the above lines of credit the Company has agreed to maintain minimum average cash balances aggregating approximately $7,000 with various commercial banks. These requirements are satisfied by balances maintained for normal business needs.

The Company has capitalized interest that relates to the capital cost of acquiring certain fixed assets. The interest costs incurred and the amounts capitalized were $73,150 and $7,546 in 1981; $68,183 and $10,618 in 1980; and $61,445 and $6,436 in 1979.

In December 1980, the Company contracted for a portion of its 1981 natural gas requirements on a take-or-pay basis. In connection with this contract the

(In thousands except share and per share data)

Company sold its rights to a comparable amount of gas for $57,500. The proceeds from the sale were recorded in Other Current Liabilities in the December 31, 1980 Consolidated Balance Sheet and were amortized against the take-or-pay contract in 1981.

4. Income Taxes

Comparative analyses of the provisions for income taxes follows:

	1981	1980*	1979*
Currently Payable			
Federal	$(14,900)	$102,200	$ 49,700
State and Local	5,400	18,450	8,900
Foreign	15,100	14,900	7,500
	5,600	135,550	66,100
Deferred			
Federal	62,700	(34,050)	17,500
State and Local	9,600	(5,100)	2,200
Foreign	1,600	(1,100)	(200)
	73,900	(40,250)	19,500
	$ 79,500	$ 95,300	$ 85,600

* Restated as explained in Note 12

The deferred taxes in 1981 and 1980 result primarily from tax deductions realized in 1981 that relate to the 1980 redeployment program discussed in Note 11 and the gas transaction discussed in Note 3. The recoverable Federal income taxes thus generated will be fully realized through the carryback of investment tax credits. In addition, 1981, 1980 and 1979 reflect accelerated write-offs of property and equipment costs, the Federal tax effects of which were $28,100, $16,100 and $17,700 respectively.

Reconciliations of the difference between U.S. statutory tax rates and consolidated effective book income tax rates are as follows:

	1981	1980*	1979*
Federal statutory tax rate	46 0%	46 0%	46 0%
State tax provision, net of federal benefit	3 4	2.9	2 7
Investment tax credit	(8 7)	(4 3)	(3 2)
Foreign tax benefits	(1 6)	(2.3)	(3 8)
Capital Gain Benefit	(4.4)	(2.7)	(0.1)
Other—net	(1 5)	(0 3)	(2 6)
Effective book income tax rate	33 2%	39 3%	39 0%

*Restated as explained in Note 12.

The domestic and foreign components of income before income tax expense are as follows:

	1981	1980*	1979*
Domestic	$206,743	$214,628	$201,396
Foreign	32,696	28,157	17,910
	$239,439	$242,785	$219,306

* Restated as explained in Note 12 and reclassified to conform with 1981 presentation

Foreign income before income taxes differs from division operating income as shown on page 30 of this report because the International Division's operating income includes Puerto Rico and export operations and because operating income has not been reduced for interest expense.

5. Pension Plans

The charges to operations under the Company's United States and Canadian pension plans were $15,400 in 1981, $18,800 in 1980, and $16,500 in 1979. Effective for 1981, the actuarial assumptions regarding future investment earnings and salaries were changed to 8¼% and 7% from 6% and 2½%, respectively. The effect of the change was to reduce pension costs by $2,300 for the year, and to reduce the present value of accumulated plan benefits by $50,400 at January 1, 1981. The following information is presented for the plans:

	January 1	
	1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	$216,205	$270,164
Non vested	10,280	13,423
Total	$226,485	$283,587
Net assets available for benefits at estimated fair value	$230,843	$196,508

(In thousands except share and per share data)

Operations were charged approximately $5,300 in 1981, $6,700 in 1980 and $6,700 in 1979 primarily for payments to pension trusts on behalf of employees not covered by the Company's plans. Most domestic employees not covered by the Company's plans are covered by collectively bargained plans. The Company's collective bargaining agreements are generally effective for periods of from one to three years. Under federal pension law there would be continuing liability to these pension trusts were the Company to cease all or most participation in any such Trust, and under certain other specified conditions. The annual payment of such continuing liability would not normally exceed the annual amount currently being paid to such Trust. The amount of such liability would be determined should the Company withdraw from participation.

6. Shareholders' Equity

Each of the 36,869 shares of Preferred Stock—Series B, bears an annual cumulative dividend of $1.32, is convertible into 1.1 common shares, and is redeemable at the Company's option at $39.

At December 31, 1981, 40,556 shares were reserved for conversion of Preferred Stock—Series B. In addition, 1,529,097 shares were reserved for issuance upon conversion of the 6¾% and 5% Convertible Debentures discussed in Note 3.

Following is the information for common shares reserved for stock options:

	Common Shares Reserved For Stock Options	
	Shares	Price Range
January 1, 1981	691,719	$19 44-32 75
Grants	155,150	28 69
Exercises	(21,415)	19 44-25 68
Expirations or cancellations	(47,885)	19.44-32.75
December 31, 1981	777,569	19 44-32.75

Included with the shares reserved for unexercised options are 300,614 options with stock appreciation rights attached, which permit the holder the election in lieu of exercising the option, of receiving cash, shares, or a combination of cash and shares. During 1981 holders exercised 3,400 stock appreciation rights for cash.

At December 31, 1981 and 1980, 327,391 and 434,656 shares, respectively, were available for future grants.

7. Operations by Industry Segment

Information about the Company's industry segments and geographic areas of operation is provided on pages 33 and 34 of this Annual Report and is an integral part of these financial statements.

8. Supplemental Income Statement Information

Set forth below is a comparative summary of certain expense items:

	1981	1980	1979
Maintenance and repairs	$105,388	$113,450	$118,731
Depreciation, depletion and amortization	99,423	100,322	100,777
Advertising and promotion, including promotions of $136,526, $111,932, and $96,135, respectively	200,015	174,501	148,832
Research and development	19,921	18,902	18,112

9. Earnings Per Share

The average number of Common Shares and Equivalents entering into the calculation of primary and fully diluted earnings per share are as follows:

	1981	1980	1979
Common Shares	29,311,069	30,841,391	31,014,400
Convertible Preferred Series B	40,556	43,348	60,008
Stock options	15,201	4,481	48,701
Total for primary calculation	29,366,826	30,889,220	31,123,109
Convertible Debentures, 6¾%	923,516	1,015,233	1,015,239
5%	775,125	800,517	832,914
Stock options	639	2,654	
Total for fully diluted calculation	31,066,106	32,707,624	32,971,262

10. Quarterly Financial Data (Unaudited)

	1981 Quarters			
	First	**Second**	**Third**	**Fourth**
Net Sales	$1.052.847	$1.208.610	$1.090.303	$1.063.414
Gross Profit	195.500	229.630	212.786	217.171
Net Income	32.184	40.176	45.188	42.391
Per Share of Common Stock				
Primary	1 10	1 37	1 54	1 44
Fully Diluted	1 05	1 30	1 47	1 38
Dividends*	475	5125	5125	5125
Market Price Range				
High	28⅝	30	30	29½
Low	25	26¼	26⅞	26¾

*Dividends on Preferred Stock—Series B were $ 33 in each quarter during 1981

	1980 Quarters**			
	First	**Second**	**Third**	**Fourth**
Net Sales	$1.070.148	$1.276.274	$1.145.485	$1.103.888
Gross Profit	191.576	230.011	209.639	211.216
Net Income	30.554	39.573	43.552	33.806
Per Share of Common Stock				
Primary	98	1 26	1 40	1 13
Fully Diluted	94	1 21	1 33	1 08
Dividends*	455	475	475	475
Market Price Range				
High	24¾	26⅛	27⅞	27⅝
Low	20	19⅝	24⅝	23⅞

*Dividends on Preferred Stock—Series B were $ 33 in each quarter during 1980

**Restated as explained in Note 12

11. Redeployment

On July 10, 1980 a major restructuring of the Company was announced. The disposal phase of the redeployment program was largely completed in 1981. The principal operations divested during 1981 were the Smith-Douglass retail fertilizer business, the packaging of natural cheeses for sale to the retail trade, and the Alex Colman women's fashion line. The principal operations divested during 1980 were the Florida phosphate properties, Mystik Tape, Molded Products and sugar refining operations. Several dairy operations were also divested. The sales and operating income attributable to the operations divested were approximately $300,000 and $-0- during 1981, $790,000 and $40,000 during 1980, and $910,000 and $20,000 during 1979, respectively. Proceeds from divestitures during 1981 and 1980 were approximately $400,000.

12. Compensated Absences

The financial statements for December 31, 1980 and prior periods have been restated to reflect the retroactive application of Financial Accounting Standard No. 43, "Accounting for Compensated Absences". The effect on the December 31, 1980 balance sheet was to increase Other Current Liabilities $13,863 and Other Current Assets $6,350 and decrease Retained Earnings $7,513. The effect on net income and earnings per share for any individual year was not significant.

BORDEN INC
277 PARK AVENUE • NEW YORK, N Y. 10172

Report of Management

The management of Borden, Inc. is responsible for the preparation and the integrity of all information included in this report. The financial statements which necessarily include amounts based upon the judgments of management, have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances and have been consistently applied.

The Company, in order to meet its responsibilities, has established and supports internal accounting control systems which are designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorizations and that those transactions are properly recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles. The Company's internal accounting control system is regularly reviewed for effectiveness, monitored by an internal audit department and implemented by well trained and qualified personnel. In addition, the Company has distributed to all key employees its policies for conducting business affairs lawfully and in an ethical manner.

Management recognizes that no internal accounting control system that properly weighs benefits against costs will preclude absolutely all errors and irregularities. It believes, however, that the Company's internal accounting control system provides reasonable assurance that any material errors and irregularities are prevented or would be detected and corrected within a timely period by employees in the normal course of performing their assigned duties.

The Board of Directors, through its Audit Committee consisting of non-employee directors, meets periodically with management, the Company's internal auditors and its independent accountants to discuss audit and financial reporting matters. Both the independent accountants and the Company's internal auditors have free access to the Audit Committee and Board of Directors, without management present, to discuss internal accounting control, auditing, and financial reporting matters.

Eugene J. Sullivan
Chairman and Chief Executive Officer

Lawrence O. Doza
Vice President and General Controller

REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse

153 53RD STREET, NEW YORK, NEW YORK 10022 212/371-2000

February 23, 1982

Board of Directors and
Shareholders of Borden, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and changes in financial position present fairly the financial position of Borden, Inc. and its subsidiaries at December 31, 1981 and 1980, the results of their operations and the changes in financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Supplemental Financial Data Adjusted for the Effects of Changing Prices (Unaudited)

Introduction

In recent years inflation has become an increasingly significant factor in the economy of the United States. Generally the Company has been able to compensate for cost increases by increasing sales prices in an amount sufficient to maintain an approximately constant gross profit percentage. Customary financial statements have been stated at historical or actual costs and have not attempted to reflect inflation. In an effort to produce financial information that discloses the effects of inflation the Financial Accounting Standards Board (FASB) has issued Statement No. 33, Financial Reporting and Changing Prices, requiring companies to explain the effect of inflationary factors on operations using two different methods to adjust historical financial statements for the effects of changing prices.

The first method, constant dollar, adjusts certain elements of the basic, historical financial statements for the effects of general inflation. The Consumer Price Index for all Urban Consumers (CPI-U) is used to make adjustments. The CPI-U is an index measuring the living costs of the average American family, including housing, fuel costs and transportation and interest. There can be no assurance that the results obtained will reflect the effects of inflation on an individual industrial company.

The second method, current cost, adjusts the basic historical financial statements for price changes of specific assets. Current cost identifies certain assets or expenses with the use or sale of products in terms of what their current cost would have been when they were used or sold rather than what their historical cost actually was. Generally, Borden's inventories, plants, and equipment would cost more to replace than when they were originally acquired. This concept is specifically applied to each business's methods of operation, products, and types and locations of assets, but it unrealistically assumes that the same types of property, plant, and equipment would be purchased.

Both methods used for reporting inflationary effects require the use of assumptions, approximations and estimates. Inflation adjustments will vary among companies because of different effects of inflation as well as different methods of accounting used in the historical financial statements. This inflation adjusted data is, therefore, not a precise indicator of inflationary effects primarily because the methods utilized do not necessarily provide actual amounts for which assets could be sold, cost which would be incurred or the manner in which actual replacement of assets would occur.

Supplementary information on both a current cost and constant dollar basis is shown below:

Statement of Income from Operations Adjusted for Changing Prices

(In thousands except per share data)

	Year Ended December 31, 1981		
	As Reported in the Primary Statements	Adjusted for General Inflation (Constant Dollar)	Adjusted for Changes in Specific Prices (Current Costs)
Net sales	$4,415,174	$4,415,174	$4,415,174
Cost of goods sold (excluding related depreciation expense)	3,481,789	3,524,515	3,515,571
Other operating expenses (excluding related depreciation expense)	528,919	528,919	528,919
Depreciation expense	99,423	164,512	171,248
Interest expense	65,604	65,604	65,604
Earnings before income taxes	239,439	131,624	133,832
Income taxes	79,500	79,500	79,500
Net Income	$ 159,939	52,124	54,332
Gain on net monetary items		45,260	45,260
Earnings, net of inflationary effects		$ 97,384	$ 99,592
Increase in current cost of inventories and property and equipment*			$ 255,571
Less effect of increase in general price level			208,794
Excess of increase in specific prices over increase in the general price level			$ 46,777
Net income per common share	$ 5.45	$ 1 77	$ 1 85
Gain on net monetary items		1.54	1.54
Earnings, net of inflationary effects		$ 3 31	$ 3 39
Effective tax rate	33.2%	60 4%	59.4%

**At December 31, 1981 the current cost of inventory was $409,038 and the current cost of net property and equipment was $2,078,835.*

Discussion and Analysis of Supplemental Financial Data

Net income derived under both the current cost and constant dollar methods has been adjusted only for depreciation expense and product costs related to restated property and equipment and inventories. The increased depreciation expense under both methods is a result of the adjustment required to reflect the impact of inflation on assets which have relatively long lives. The increased values of current cost of goods sold over

historic cost of goods sold is a result, primarily, of the increasing costs of raw materials and labor. The increase in current cost of goods sold was less than constant dollar cost of goods sold primarily because the CPI-U market basket does not equate to that of Borden and the specific rate of vendor price increases was not always as great as the general rate of inflation. Sales and all other costs and expenses remain unchanged from the primary statements since they are considered to occur relatively evenly throughout the year. In accordance with the FASB statement, income tax expense has not been restated in the inflation-adjusted earnings statements despite the significant reduction in pre-tax earnings. If the higher depreciation and other costs had actually been incurred, the company would have reported added tax deductions and tax credits, such as investment tax credit, which would significantly increase inflation adjusted net income.

Current cost amounts were determined by adjusting inventories and cost of goods sold to year-end and time of sale market values of raw materials and current production costs using average and standard costing, and indexing methods. Property and equipment was adjusted to current cost primarily by applying indices developed both internally and externally. Depreciation was calculated using the same methods and depreciable life assumptions as those used in the primary financial statements. Land values were estimated by reference to current market values and appraisals.

The gain from decline in the purchasing power of net amounts owed is determined by calculating the net monetary assets or liabilities at the beginning and end of the year, stating these amounts in average 1981 dollars and deriving the change therefrom. Monetary assets and liabilities are cash, and claims on, or liabilities for, cash receipts or payments, the amounts of which are fixed in terms of the number of dollars to be received or paid. The net monetary gain shown in the preceding supplemental statements results from Borden's net monetary liability position which will be repaid with dollars which have lost purchasing power relative to the point when the liabilities were incurred.

The data presented in the five-year summary has been adjusted for the effects of general inflation and for specific prices in the same manner as for 1981 information. All amounts in the summary are stated in average-for-the-year constant dollars as measured by the Consumer Price Index for All Urban Consumers for the current fiscal year. Certain data has only been presented for 1981, 1980 and 1979 since it was not practicable to collect the information for the earlier years. As is apparent in comparing data from the primary statements to the same data on the current cost and constant dollar bases, real growth results only when the nominal rate of growth exceeds the rate of inflation.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

In thousands of average 1981 dollars

	1981	1980*	1979*	1978	1977
Net Sales	$4,415,174	$5,072,506	$5,403,560	$5,301,009	$5,224,794
Constant Dollar Information:					
Net income	52,124	26,175	34,203		
Net income per common share	1.77	.84	1.10		
Net assets	2,055,690	2,063,791	2,173,434		
Current Cost Information:					
Net income	54,332	38,362	63,276		
Net income per common share	1.85	1.24	2.03		
Net assets	2,238,673	2,346,503	2,590,327		
Excess of increase in specific prices over the increase in the general price level	46,777	81,365	71,229		
Other Information:					
Purchasing power gain (loss) on net monetary items	45,260	81,423	93,112		
Cash dividends per common share	2.01¼	2.08	2.25	2.34	2.28
Market price per common share	27⅛	27⅛	28¼	34¼	44⅞
Average consumer price index	272.4	246.8	217.4	195.4	181.5

**Restated as explained in Note 12.*

Borden, Inc.
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The Annual Meeting will be held on Wednesday, April 21, 1982, beginning at 11:00 a.m. in the Hunterdon Theatre, Church Street and Route 31, Flemington, New Jersey.

Price Waterhouse
153 East 53rd Street
New York, New York 10022

Transfer Agent & Registrar
Dividend Disbursing Agent
Chemical Bank
55 Water Street
New York, New York 10041

4 3/8% Sinking Fund Debentures
The Chase Manhattan Bank, N.A.
New York, New York 10081

5 3/4% Sinking Fund Debentures
Morgan Guaranty Trust Company of New York
New York, New York 10015

8 1/2% Sinking Fund Debentures
Bank of America, N.T. & S.A.
San Francisco, California 94137

9 3/8% Sinking Fund Debentures
The Bank of New York
New York, New York 10015

Common Stock (Ticker Symbol-BN)
New York Stock Exchange
The Common Stock is currently listed on exchanges in Basel, Geneva, Lausanne and Zurich, Switzerland.

New York Stock Exchange
4 3/8% Sinking Fund Debentures, due 1991
5 3/4% Sinking Fund Debentures, due 1997
8 1/2% Sinking Fund Debentures, due 2004
9 3/8% Sinking Fund Debentures, due 2009

April 24, 1899-New Jersey

Borden, Inc. will furnish to any shareholder, without charge, a copy of its most recent annual report on Form 10-K, as filed with the United States Securities and Exchange Commission.

Written requests should be directed to:
Borden, Inc.
Attn. Mr. R. G. Tritsch
Secretary
277 Park Avenue
New York, New York 10172

Printed in U.S.A.

BORDEN

BORDEN, INC.
277 PARK AVENUE / NEW YORK, N.Y. 10172

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